

REVENUE SOURCES
Forecast and Historical Data

FALL 2007

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December 7, 2001

The Honorable Tony Knowles
Governor of Alaska
P.O. Box 110001
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Dear Governor Knowles:

With great pride in my staff, I present you with our most complete overview ever of state revenues. We have endeavored these past few years to expand our semi-annual forecast to go beyond oil price and production projections, and to more fully explain all state revenues — especially the increasingly important investment earnings from the Permanent Fund, Constitutional Budget Reserve Fund and state endowments.

And while investment earnings have surpassed oil and gas revenues in three of the past four years, it's oil and gas revenues that drive the sobering news I must deliver today.

After a year of high oil prices produced a small budget surplus in Fiscal Year 2001, the state is headed back toward growing budget deficits as oil prices move into their historical range of \$17 to \$19 per barrel for Alaska North Slope crude. We forecast a \$865 million deficit for Fiscal 2002, based on oil averaging \$20.55 for the year. High prices the first six months of this year help keep the average — and the budget gap — from looking worse. Alaska North Slope crude was selling for around \$17 a barrel last week, and we expect it to hang around that price range for the rest of the year.

Assuming the nation's economy starts its recovery later next year, and as worldwide oil demand picks up a bit, we see prices averaging \$18.81 a barrel in Fiscal 2003 and \$19.72 in Fiscal 2004. Even with the higher prices, however, the state's budget gap will continue to grow, due in part to our production tax structure. We expect a budget gap of \$1.08 billion in Fiscal 2003 and \$1 billion in Fiscal 2004.

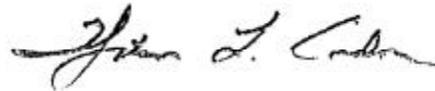
Based on our oil price and production forecast, we expect the Constitutional Budget Reserve Fund, which has filled the budget gap in all but two years since it was established in 1991, will hit empty in the summer of 2004. That's almost a full year sooner than we had forecast last spring.

Although we expect prices over the next decade to average within the range of \$17 to \$19, just as they have for the past 16 years, that price band depends in great part on OPEC's ability to manage the world's oil supply. The Organization of Petroleum Exporting Countries has managed for most of the past two years to maintain prices above the historical average by holding back supply. Although they have lost their hold and prices have fallen the second half of this year, OPEC nations are trying to strike a deal with non-OPEC producers to tighten supplies. If they succeed, prices would certainly move higher. Yet, even if oil averages \$25.50 for the next few years, it only extends the life of the CBRF by about 22 months. But if the opposite happens, as it did in the winter of 1998-1999 when Alaska North Slope oil sold for below \$9 a barrel, the state's budget gap could grow by several hundred million dollars a year and the CBRF might not survive past the end of calendar 2003.

I wish I had better news to deliver, but the message is clear: Our state government must wean itself from its dependence on oil revenues. Our budget gap, and the future of the CBRF, are in great part outside of our control under the state's existing fiscal structure.

The Department of Revenue looks forward to working with you and all 60 legislators as Alaska moves toward finding the right answers to its revenue problem.

Sincerely,

A handwritten signature in black ink, appearing to read "Wilson L. Condon". The signature is fluid and cursive, with a large initial "W" and "C".

Wilson L. Condon
Commissioner

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I. INTRODUCTION

Why Issue a Revenue Forecast?

In the past, oil alone pumped through the heart of the Department of Revenue's twice-yearly revenue forecast. The state's finances depended on oil tax and royalty revenues, which depended on price and production. The department's forecast of those variable was key to annual budget work by the governor's office and the legislature.

Although oil prices are still important, the state's growing reliance on the Constitutional Budget Reserve Fund (CBRF) during the mid- and late-1990s brought a new element to the revenue forecast. The department twice a year tried to answer how much money would be needed from the budget reserve to balance state spending — and when the savings account might run out.

Of course, any estimate of draws on the CBRF is dependent on oil revenue. Oil continues to provide the bulk of the money available to meet general government expenditures. When Alaska North Slope oil prices in FY 1999 averaged just \$12.70 per barrel, almost half of the General Fund budget of \$2.4 billion came from the CBRF — consuming almost one-third of the funds available at the time in the CBRF. The possibility of a long spell of low oil prices and subsequent heavy demand on the CBRF resulted in a legislative attempt at a long-term fiscal plan that relied, in part, on using some earnings from the Alaska Permanent Fund. A public advisory vote went overwhelmingly against the plan in September 1999.

Prices recovered from the extreme lows of 1998-1999, delaying but not eliminating the inevitable end to the CBRF. In FY 2000, with oil prices averaging \$23.27 — almost \$6 per barrel higher than over the previous 14 years — the draw on the CBRF was over \$300 million. In FY 2001, oil prices were even higher — \$27.85 per barrel — more than \$10 per barrel above the 1986-to-2000 average. Even at that high price, it was just high enough to provide a small budget surplus for the year. Regardless of the price, the fact is that Alaska's oil production is only about one-half of what it was when the massive Prudhoe Bay field was at peak production levels in FY 1988.

Meanwhile, investment income, which has overtaken oil revenue as the state's largest source of money over the long term, demonstrated its volatility in the bear market we experienced during FY 2001. Investment income surpassed total oil revenue in Fiscal 1998, 1999 and 2000, with only the high oil prices of Fiscal 2001 — combined with the sharp decline in the world's stock markets — temporarily breaking the trend.

And while Alaska's population grows, the demand for public services grows with it. Yet the long-term outlook for North Slope oil is a gradual decline at the large, older fields. New fields and a possible natural gas project could help replace some of the decline in oil revenue, but nothing can bring Alaska back to its cash-rich days of the 1980s. The two lines moving in opposite directions — declining oil production and increasing population and services — is the reason we try to answer the question: *"When will the day arrive that we need to change the way the state pays for public services?"*

What's In This Report?

This Fall 2001 Revenue Sources Book is organized into ten sections:

- I. Introduction**
- II. Managing Volatility: A Key Element in Alaska's Public Finances**
This special section is a discussion about the need for specific policies to deal with the volatility in the state's two major source of revenue: oil and investments.
- III. Executive Summary**
- IV. Alaska's Fiscal Options**
This section briefly describes revenue options for balancing the state's budget.
- V. Oil Revenue**
This section covers revenue from oil and gas production taxes, corporate income taxes, property taxes and royalties.
- VI. Non-Oil Revenue (Except Investments)**
This section summarizes revenue from alcohol, tobacco, fisheries, estate and motor fuel taxes, non-oil corporate income taxes, user fees, federal funds and several other revenue sources.
- VII. Investment Revenue**
This section includes investment earnings from the Alaska Permanent Fund, the Constitutional Budget Reserve Fund, the General Fund and other state investments.
- VIII. State Endowment Funds**
This section compares basic policies governing eight of the state's endowment funds.
- IX. Public Corporations Under the Executive Budget Act**
This section summarizes information about the University of Alaska and eight public corporations established by the State of Alaska that are treated as separate component units of state government for financial reporting purposes
- X. Appendices**

Sections V., VI. and VII. include explanations of restricted funds (money restricted by the constitution, state statute, customary practice or federal designation) and explanations of unrestricted funds (money generally available for appropriation each year). The unrestricted revenue category is the focus of legislative and public debate each year, because it's this money that pays for many of our public services and the day-to-day operations of state government.

The goal of the Revenue Sources Book is to describe state revenue in specific and complete terms for anyone who wants to ask: *"Where does the state get its money?"* In doing so, the Department of Revenue follows an agreement between the Governor's Office of Management and Budget and the Legislative Finance Agency that organizes all sources of state funding by their allowable uses under state and federal law.

Revenue listed in Table 1 on Pages 19 and 20 shows the new money available for appropriation each fiscal year, including oil revenue, non-oil revenue, federal revenue and investment earnings. This table does not include balances in existing funds such as the Constitutional Budget Reserve Fund or the Permanent Fund Earnings Reserve Account. The revenue that went into those funds was counted in previous years and should not be counted twice.

Glossary

- **General Fund Revenue:** General Fund Revenue has different meanings in different contexts. In the state's official financial reports, General Fund Revenue is used to designate the sum of Unrestricted General Purpose Revenue, General Fund subaccount revenue (such as the Alaska Marine Highway System revenue) and federal dollars spent through the General Fund. See for example the Comprehensive Annual Financial Report at <http://www.state.ak.us/local/akpages/ADMIN/dof/fin-afr.htm> that shows General Fund revenue of over \$4 billion for FY 2001. However, for budgeting purposes, General Fund Revenue sometimes excludes both federal money or money earned in subaccounts of the General Fund. For example see the Fiscal Summary (updated) at Legislative Finance's web site <http://www.legfin.state.ak.us/> which shows General Fund revenue of about \$2.3 billion for FY 2001. The \$1.7 billion difference is attributable in large measure to the treatment of federal money and General Fund subaccounts.
- **General Fund Unrestricted Revenue:** Revenue designated as General Fund in the state accounting system (AKSAS). This includes revenues we show as restricted, such as shared taxes or the Alaska Marine Highway System revenues.
- **Unrestricted General Purpose Revenue:** Revenue not restricted by the constitution, state or federal law, trust or debt restrictions or customary practice. Most legislative and public debate over the budget each year centers on this category of revenue. In deriving this figure from General Fund Unrestricted Revenues, we have excluded customarily restricted revenues such as shared taxes and the Alaska Marine Highway System revenues.
- **Restricted Revenue:** Revenue restricted by the constitution, state or federal law, trust or debt restrictions or customary practice. The legislature can of course at any time remove restrictions that are solely imposed by either Alaska statute or customary practice. When these dollars are restricted General Fund revenues, they are either recorded in a restricted subaccount of the General Fund or are General Fund taxes customarily shared with other entities.
- **Federal Revenue:** When the federal government gives money to states, it restricts how that money can be used. Highway and airport construction funds, Medicaid and education funding cannot be used for other purposes. In addition to restricting how the money is spent, the federal government often requires states to put up matching funds to qualify for the federal funding.

- Dedicated Revenue: Revenue restricted by the Alaska Constitution fits into this category. Other than the Permanent Fund, which was approved by voters in 1976, all of the other revenue sources in this category existed in some form before statehood and therefore are not subject to the constitutional prohibition against dedicated funds. They include such accounts as the Fish and Game Fund, Disabled Fisherman’s Fund and Public School Fund.
- Statutorily Designated Program Receipts: Though not dedicated in the constitution, this revenue is earmarked in state law for specific purposes. Examples include University of Alaska tuition payments, marine highway receipts, payments to various revolving loan funds and airport revenues and public corporation receipts.
- Customarily Restricted Revenue: Though not set out in statute, these revenue sources have historically been restricted by the legislature. The largest item in this category is Permanent Fund earnings in excess of what is needed each year for dividends and inflation proofing. Though the money could be spent as unrestricted revenue, the legislature has always chosen to retain it in the Permanent Fund’s Earnings Reserve Account or appropriate it to the fund’s principal.
- Permanent Fund Statutory Income: The annual Permanent Fund dividend is based on statutory income. This is the total realized gain and loss of all Permanent Fund investment transactions during the year, plus interest and dividends earned by the fund. Though the legislature may appropriate the earnings for any purpose it chooses, the historical practice has been to restrict the use of realized income to dividends and inflation proofing, and then either leaving the excess in the Earnings Reserve Account or transferring it to the principal of the Permanent Fund.
- Permanent Fund GASB (or Market) Income: Under standards adopted by the Governmental Accounting Standards Board, the Permanent Fund’s income – and that of any other government fund – is the difference between the purchase price of the investments and their market value at a given point in time, plus any dividends or interest earned on those investments. Under GASB standards, the Permanent Fund does not have to sell the investment to count the gain or loss as it changes value. It’s called “marking to market,” that is, measuring the value of the fund’s investments by the current market price. This can produce a much different picture than Permanent Fund Statutory Income, which does not reflect fluctuating investment values until the assets are sold.
- Constitutional Budget Reserve Fund: Created by voters in 1990, the Constitutional Budget Reserve Fund holds the proceeds from settlements of oil and gas and mining tax and royalty disputes since July 1, 1990. It generally requires a three-quarters majority vote of each chamber of the legislature to withdraw money from the fund.

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II. MANAGING VOLATILITY: A KEY ELEMENT IN ALASKA'S PUBLIC FINANCES

Alaska depends on revenue from oil and investments to pay its bills and fund its savings accounts. Revenue from these sources is volatile, meaning it can be really high or really low. History shows us that oil prices can skyrocket in one month and tank in the next. The amount of money Alaska receives from oil taxes and royalties is directly proportional to the price of oil. Financial markets, too, can whipsaw, go into extended periods of growth, or plunge into recession.

In short, Alaska depends on sources of revenue that are unreliable and unpredictable. This is not a good thing for a government or anyone who is trying to balance a budget. As long as Alaska depends on oil and investments — which will be the case for the foreseeable future, even if we add a broad-based tax to our fiscal system — we need to have a way to deal with revenue volatility.

Oil Price Volatility

Commodities markets generally exhibit price volatility caused by changes in the relationship between supply and demand. Oil has historically experienced boom-and-bust cycles. Demand varies with economic growth or decline, changes in driving or traveling habits, and cold weather. Supply can fluctuate with new discoveries, slow-downs in exploration, or political events such as embargoes. If demand increases and supply decreases, prices will rise; oversupply, on the other hand, causes prices to tumble. Although various agencies and cartels, such as the Texas Railroad Commission and OPEC, have occasionally succeeded for short periods of time in dampening the volatility of oil prices, oil prices continue to yo-yo.

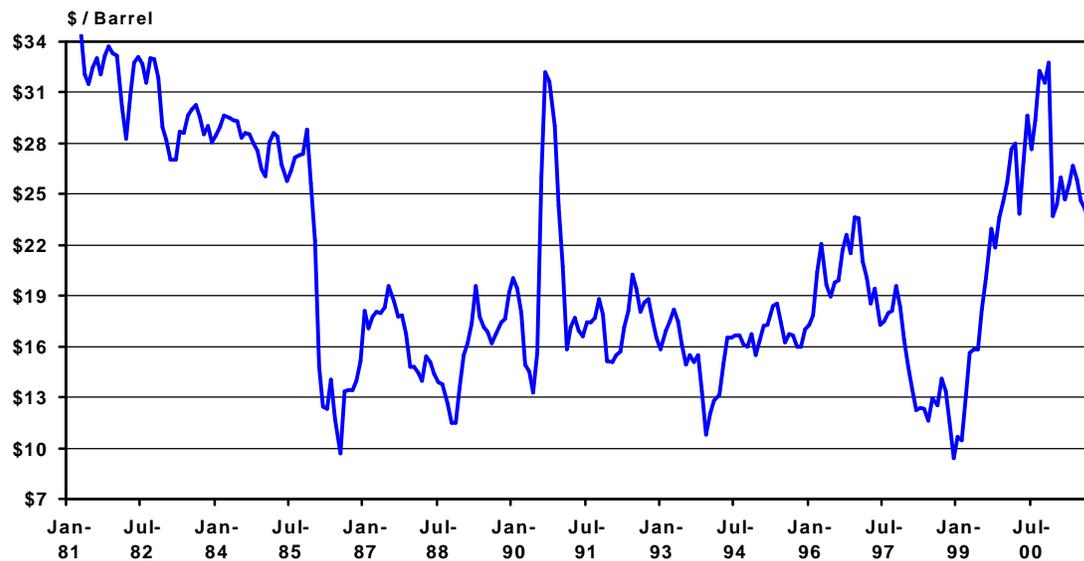
Although the state's fiscal system is most affected by long-term average oil prices, oil prices can experience large fluctuations in the short term. For example, in the year 2000:

- Between Jan. 7 and March 7, ANS rose \$10.07 per barrel
- Between March 7 and April 10, ANS fell \$10.83 per barrel
- Between April 10 and June 20, ANS rose \$8.77 per barrel
- Between Nov. 27 and Dec. 14, ANS fell \$10.27 per barrel

For example, the price of ANS hit a low of \$9.72 per barrel in July 1986, and then rebounded to a high of \$32.32 per barrel in September 1990. In 1998, oil prices again plunged, hitting a low of \$9.39 per barrel, and averaged \$15.86 per barrel for the fiscal year.

On a graph, the oil price collapses of 1986 and 1998 both appear equally cataclysmic, yet, the effect on the state was markedly different. In 1986, neither the state nor the private sector was prepared for the oil price crash. For the state, revenues fell by 42% due to the fall in oil prices. In response, the state reduced its workforce by 10%: It had almost 2,000 fewer state workers in 1987 than in 1985. The capital budget was reduced from \$2 billion in 1985 to \$343 million in 1987. Private industry was equally debilitated. In addition to the oil industry downsizing, the banking, retail and construction sectors all reeled from the blow. All were overextended, not having prepared for either the oil industry cutback or the state government cuts that followed the oil price crash.

Figure 1. Average ANS West Coast Spot Price
\$/ barrel



1998 tells a different story. The private sector had prepared itself well for oil price volatility. Although the oil and oil service industries contracted when prices fell, the state economy did not experience the marked decline in banking, real estate, retail and construction that occurred in 1986.

State government, too, did not experience an economic collapse in 1998. In FY1999, due to oil prices averaging less than \$12.59 per barrel, state revenue was a billion dollars less than expenditures. Yet, state government was able to meet its obligations without firing employees or selling its assets. It did so by tapping its rainy day fund, the Constitutional Budget Reserve Fund (CBRF). The CBRF illustrates one way for a state government to manage revenue volatility: Have a rainy day fund that will act as a shock absorber when revenues hit the downside of the boom-and-bust cycle.

The CBRF was born in the wake of the 1986 oil crash, when voters approved a constitutional amendment in the 1990 election. At that time, the state had a ready source of money to fill a rainy day fund — unresolved tax and royalty disputes with oil producers. Resolution of these disputes eventually would total several billion dollars. To both keep this money from being spent immediately, and to create a shock absorber for the next revenue shortfall, the amendment squirreled away into the CBRF all the money that would come in from resolution of these back tax and royalty disputes.

The amendment creating the CBRF gave the legislature a simple means — majority vote — to appropriate money when revenues declined, capping such appropriations at the amount of the previous year's budget. It then also provided a more difficult means — three-quarters vote — that would allow unlimited withdrawals of money. For technical reasons — largely that the earnings reserve of the Permanent Fund makes the state seem too rich — the simple method doesn't work, and the legislature has to use the supermajority method to appropriate out of the CBRF. Finally, the amendment also required that, in years when the General Fund has a surplus, the General Fund must pay to the CBRF any money it "borrowed" from the CBRF.

State government may have forgotten what it knew in 1990 when it created the CBRF. The CBRF worked in 1998 (FY 1999), bailing the state out of a billion-dollar deficit caused in part by low oil prices. For the CBRF to be a long-term buffer against low oil prices, however, it needs to be refilled. But the state does not have any large outstanding tax and royalty cases to replenish the fund. The other option is to refill the fund when oil prices are high. Ideally, during times of "average" oil prices — about \$17 to \$18 per barrel — the state would have a balanced budget. It would spend from the CBRF only when oil was below \$17 per barrel, and would add to the CBRF when oil was above \$19. This has not happened. Instead, the state has relentlessly drawn down the CBRF. Rather than finding new sources of revenue or raising taxes so that the state would have a balanced budget, the state has used the CBRF to balance the budget in all but two years since the fund opened.

We have been getting away with spending down our buffer, but this is a game laden with risk: Once the CBRF reaches a critical low point, the state will have to take unwelcome emergency measures the next time oil prices plummet. Keep in mind the state will not be able to immediately implement new taxes. An income tax cannot produce meaningful revenue until over a year after adoption; a state sales tax not much faster. In short, if the bottom drops out of oil prices, and we have passed the point where the CBRF can deal with the shortfall, we will have to cut state programs, sell state assets, significantly increase oil taxes, or spend Permanent Fund earnings, likely including funds otherwise earmarked for dividends.

Big Ideas for the CBRF

Over the years, many ideas regarding the CBRF have been fodder for legislative proposals. For example:

- Appropriate the entire balance of the CBRF into the Permanent Fund.
- Eliminate the requirement that the General Fund pay back money appropriated from the CBRF.
- Turn the CBRF into an endowment where only yearly earnings could be spent.

These ideas may have merit on a number of planes. Each would have the effect, however, of eliminating the CBRF's viability as a shock absorber, and would make the state vulnerable to oil price volatility.

What is that critical point where the CBRF can no longer bail out the state? For FY 2003, if we assume a \$2.5 billion General Fund budget and a low average oil price of \$10 per barrel, we would need about \$1.5 billion to balance the budget; this number will be higher in each successive year.

What are the alternatives to the CBRF to manage volatility? Most states rely on some combination of rainy day funds, the relative stability of broad-based tax revenue (at least compared to oil prices), and the ability to cut services when necessary. Some other states that depend on oil revenue, however, have begun to consider using "hedging" strategies to insure against big drops in state revenue when oil prices fall. Without going into great detail, these strategies would involve the state entering the financial markets by investing in certain financial instruments — most likely either participating in the "futures" market or the "options" market — to offset lost revenue caused by falling oil prices.

The Department of Revenue has researched hedging and determined that it is a strategy that can work to protect the state from some of the downside effects of oil price volatility. The department is not an advocate of hedging, and we don't sense much enthusiasm for it from state officials or knowledgeable private individuals. We think this lack of enthusiasm is due to the fact that hedging can be very expensive and that it becomes more difficult to work if oil prices stay down. Perhaps more to the point, however, the state already has a system for managing oil price volatility that could work very well, for very low cost: Our own shock-absorber-rainy day fund, the CBRF.

Yet, if the state continues to use the CBRF as budget-balancing mechanism during both good and bad oil prices, the CBRF will soon be used up and discarded. If we expect this to happen, the state should give serious thought to hedging strategies so that it can avoid the chaos that would come from unpredictable major declines in revenue. The time to make these decisions, however, is upon us. The CBRF is fast approaching the magic number of \$1.5 billion, below which it cannot realistically serve as buffer. For hedging to work it must be planned and executed in advance. If we wait until we need hedging to try to hedge, it will be too late.

Investment Revenue Volatility

The lesson that many people have relearned recently is that investments can lose money. Although the state manages many of its funds to avoid volatility, the state also manages some funds, such as the Permanent Fund, for the purpose of making money over the long term. To meet this long-term goal requires taking risk; taking risk means that at times the fund will make money and at times it will lose money.

Does this volatility cause a problem? Potentially, it does. If the state is relying on a steady stream of income from an endowment to fund a program, the volatility of investment returns can wreak havoc with the program's budget.

It's easy to find examples of this. Section VII of this forecast describes Alaska's endowment funds, all of which invest money in order to live off the investment income. One example is the Alaska Science and Technology Fund. This fund makes grants from the income of its investments, and also provides funding for certain other programs. The fund has existed since 1988. Although the fund would occasionally stockpile some earnings, it had no formal earnings reserve account.

As long as the Science and Technology Fund made money, it could deal with volatility simply by making fewer grants in lean years. Between FY 1992 and FY 2000, its realized income ranged from a low of \$7.3 million to a high of \$14 million; its spending ranged from \$1.5 million to \$25.7 million. (The \$25.7 million total came in Fiscal 1992, when the legislature appropriated \$21.5 million in foundation earnings for non-foundation expenditures, including \$17 million to the General Fund.) With the large losses experienced by fund managers in 2002, however, the fund now faces a dilemma. Unless the legislature spends some of the principal of the fund, not only will the fund be unable to meet its obligations in this year, but it must face the question of whether future earnings will have to first restore losses before any additional spending can take place. This situation is made even more complex for the fund because it has unrealized losses, which, with no shock absorber, eat further into its value.

The Permanent Fund, on the other hand, has avoided this problem because it does have an earnings reserve in which excess revenue is deposited. In years such as this one, in which the Permanent Fund loses money, it can still pay out dividends from the reserve fund.

As with the CBRF, over the years people have proposed various ideas regarding the Permanent Fund's earnings reserve. One of the most common is the suggestion that the earnings reserve — or a large portion of it — be appropriated back into principal, where it could not be spent without a vote of the people. If this were to happen, however, the Permanent Fund would be in the same shoes as the Science and Technology Fund. It would be at the mercy of the volatile financial markets, and, if it had no reserves, unable to meet its obligations — currently, dividend payments and inflation proofing — in years when it did not make money. Indeed, if the Permanent Fund lost money, it would show a negative balance in its earnings reserve, and would have to wait for that balance to return to a positive number before it could pay out any amount at all.

As described in Section VIII, there are other ways for endowment funds to manage volatility. Two of the state's endowments, the Alaska Children's Fund and the Public School Trust, allow a payout of only interest and dividend income; all capital gains and losses must be absorbed into the principal. This protects the fund from volatility in the securities markets, although not necessarily from interest-rate volatility.

The most prevalent payout structure for most modern university and hospital endowments allows a yearly payout based on a percent of the market value of the entire fund. If the payout is set at the right number — usually around 5% per year — the endowment can provide a relatively steady source of revenue for its programs, while still growing enough to offset the effects of inflation. Year-to-year volatility can be dampened even further if the payout is based on a rolling average of the fund's market value over three to five years.

One interesting aspect of endowments with payouts based on a percent of market value is that they do not usually distinguish between principal and income. Instead, they treat the fund as a whole. Therefore, these endowments do not need an earnings reserve account. The endowment managers are comfortable with the idea that the fund as a whole will grow or retain its value over time. If in a period of low or negative earnings the fund eats into what would be traditionally considered "principal," the managers do not panic because they know that, over time, financial markets will make money and that the fund will return to the black.

It is possible, however, to hybrid the "percent-of-market-value" concept with the traditional notion of protecting the principal of an endowment fund. For example, the Permanent Fund has recently proposed using the percent-of-market-value methodology, while keeping intact the constitutional restriction on spending principal. When these two approaches are combined, the fund must retain a healthy earnings reserve account. An account with a ban on spending of principal would have no way to make any payout — that is no dividends — during lean years if it had no earnings reserve.

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III. EXECUTIVE SUMMARY

A. Total Revenue

Table 1 summarizes the state's total revenue outlook by major revenue component (Preliminary Actual FY 2001 and projected FY 2002-2003).

Table 1. Total Revenue			
\$ Million	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Oil Revenue</u>			
<u>Unrestricted</u>			
Property Tax	45.1	43.2	41.4
Corporate Income Tax	338.1	150.0	200.0
Production Tax	703.1	450.0	377.9
Royalties (including Bonuses)	<u>788.1</u>	<u>547.7</u>	<u>502.6</u>
Subtotal	1,874.4	1,190.9	1,121.9
<u>Restricted</u>			
Royalties to Permanent Fund & School Fund	344.9	226.7	219.4
Settlements to CBRF	49.1	100.0	45.0
NPRA Royalties, Rents & Bonuses	<u>1.7</u>	<u>1.3</u>	<u>1.2</u>
Subtotal	395.7	328.0	265.6
Subtotal Oil	2,270.1	1,518.8	1,387.5
<u>Non-Oil Revenue (Except Investments)</u>			
<u>Unrestricted</u>			
Federal Receipts	0.3	1.0	1.0
Taxes	184.2	168.3	171.0
Charges for Services	26.9	22.0	22.0
Fines and Forfeitures	33.6	12.0	12.0
Licences and Permits	37.3	36.5	37.0
Rents and Royalties	10.9	10.0	10.0
Other	<u>35.0</u>	<u>52.0</u>	<u>38.0</u>
Subtotal	327.9	300.8	290.0
Subtotal	328.2	301.8	291.0
<u>Restricted</u>			
Federal Receipts	1,322.6	2,081.5	2,081.5
Taxes	62.0	57.6	56.4
Charges for Services	210.4	228.3	235.3
Fines and Forfeitures	0.0	25.8	26.3
Licences and Permits	41.0	40.7	41.0
Rents and Royalties	0.0	0.0	0.0
Other	<u>124.4</u>	<u>125.1</u>	<u>126.6</u>
Subtotal	437.8	477.5	485.6
Subtotal	1,760.4	2,559.0	2,567.1
Subtotal Non-Oil (Except Investments)	2,088.6	2,860.8	2,858.1

Table 1. Total Revenue, cont.
\$ Million

	Preliminary Actual <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Investment Revenue			
<u>Unrestricted</u>			
GeFONSI Pool Investments	61.7	40.9	22.0
Investment Loss Trust Fund	0.4	0.2	0.2
Interest Paid by Others	<u>16.7</u>	<u>10.0</u>	<u>10.0</u>
Subtotal	78.8	51.1	32.2
 <u>Restricted</u>			
GeFONSI Pool Investments	21.8	12.1	7.8
Constitutional Budget Reserve Fund	202.9	168.0	82.8
Other Treasury Managed Funds	16.5	25.2	43.7
Alaska Permanent Fund (GASB) ⁽¹⁾	<u>(924.0)</u>	<u>169.0</u>	<u>1,947.1</u>
Subtotal	(682.8)	374.3	2,081.4
Subtotal Investment Revenue	(604.0)	425.4	2,113.6
 Grand Total	 3,754.7	 4,805.1	 6,359.2

(1) Governmental Accounting Standards Board (GASB) principles recognize changes in the value of investments as income or losses at the end of each trading day, whether or not the investment is actually sold.

Figure 2. FY 2001 Total Revenue — \$3.8 Billion

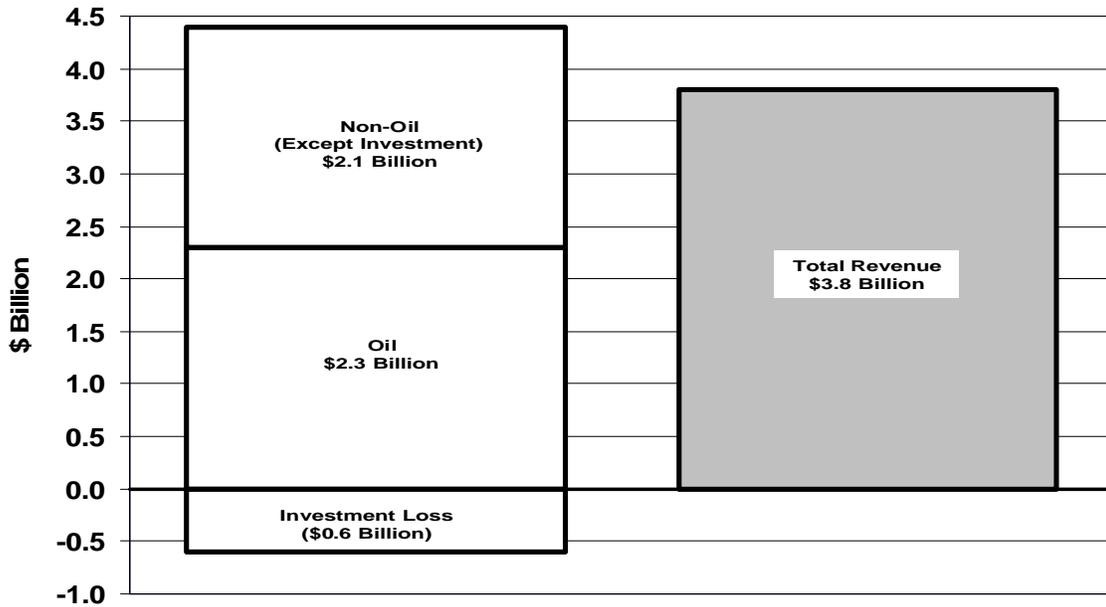
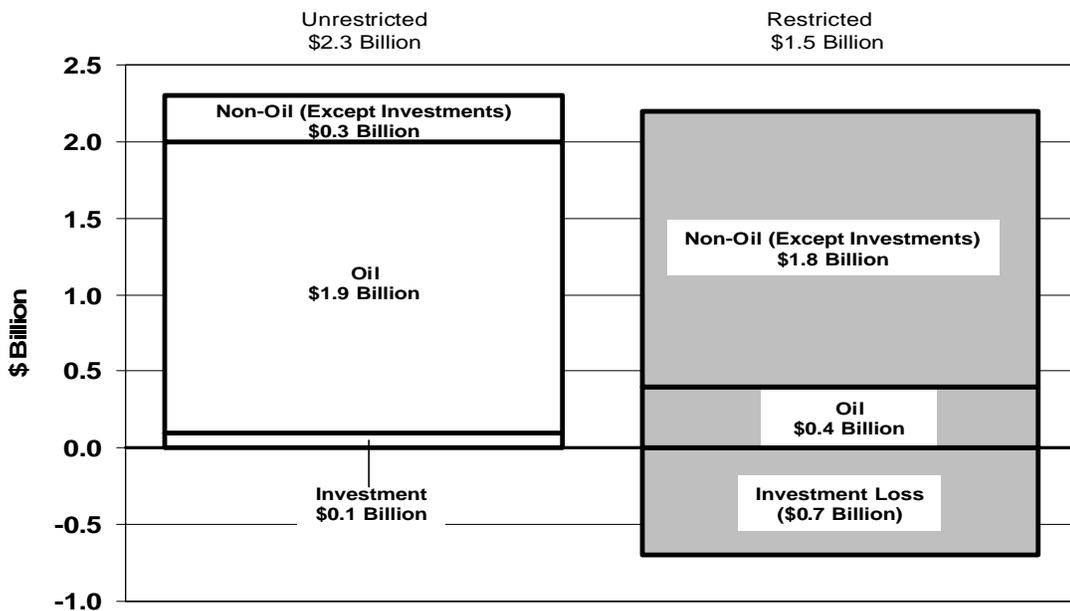


Figure 3. FY 2001 Unrestricted and Restricted Revenue



**Table 2. Total State Revenue, Preliminary Actual FY 2001 and Projected 2002-2003 Unrestricted ⁽¹⁾ and Restricted by Major Source
\$ Million**

	Preliminary Actual FY 2001	FY 2002	FY 2003
<u>Unrestricted</u>			
Oil Revenue	1,874.4	1,190.9	1,121.9
Non-Oil Revenue (Except Investments)	328.2	301.8	291.0
Investment Revenue	<u>78.8</u>	<u>51.1</u>	<u>32.2</u>
Subtotal	2,281.4	1,543.8	1,445.1
<u>Restricted</u>			
Oil Revenue	395.7	328.0	265.6
Non-Oil Revenue (Except Investments)	1,760.4	2,559.0	2,567.1
Investment Revenue	<u>(682.8)</u>	<u>374.3</u>	<u>2,081.4</u>
Subtotal	1,473.3	3,261.3	4,914.1
Grand Total	3,754.7	4,805.1	6,359.2

1) Total unrestricted revenue as reported for AKSAS (Alaska State Accounting System) with adjustments for certain municipal sharing of statewide taxes and additional spending restrictions.

B. Unrestricted General Purpose Revenue

Unrestricted General Purpose Revenue is the amount generally used for budget planning purposes. Table 3 on the next two pages sets out actual FY 2001 Unrestricted General Purpose Revenue and our forecast for FY 2002 and 2003.

We forecast Unrestricted General Purpose Revenue by first estimating General Fund Unrestricted Revenue, which includes all unrestricted revenue items in the Alaska State Accounting System (AKSAS), as well as certain program receipts. After consulting with the Governor's Office of Management and Budget and the legislature, we adjust our forecast of General Fund Unrestricted Revenue to derive a forecast of total Unrestricted General Purpose Revenue. Reductions include: (1) earmarking revenue for specific programs, (2) pass-through revenue for qualified regional aquaculture and dive fishery associations, and (3) revenue shared with local governments and organizations (e.g., fisheries taxes). Additions include transfers from the unclaimed property trust and inactive loan funds.

Table 3. Unrestricted General Purpose Revenue

\$ Million

	Preliminary Actual		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
OIL REVENUE			
<u>Property Tax</u>	45.1	43.2	41.4
<u>Corporate Income Tax</u>	338.1	150.0	200.0
<u>Production Tax</u>			
Oil and Gas Production	694.4	440.4	367.7
Oil and Gas Hazardous Release	<u>8.7</u>	<u>9.6</u>	<u>10.2</u>
Subtotal	703.1	450.0	377.9
<u>Royalties</u>			
Mineral Bonuses and Rents	7.1	9.5	6.6
Oil and Gas Royalties	<u>781.0</u>	<u>538.2</u>	<u>496.0</u>
Subtotal	788.1	547.7	502.6
Subtotal Oil Revenue	1,874.4	1,190.9	1,121.9
NON-OIL REVENUE (EXCEPT INVESTMENTS)			
<u>Federal Receipts</u>	0.3	1.0	1.0
<u>Non-Oil Tax</u>			
Sales and Use			
Alcoholic Beverage	12.0	12.3	12.3
Cigarette	10.9	9.5	9.3
Other Tobacco Product	5.4	5.5	5.5
Insurance Premium	32.2	33.1	34.5
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel Tax	<u>37.7</u>	<u>37.7</u>	<u>37.7</u>
Subtotal	98.4	98.3	99.5
Corporate Income Tax	59.5	48.0	50.0
Fish Tax			
Fisheries Business	15.4	12.5	12.3
Fishery Resource Landing	<u>4.1</u>	<u>2.8</u>	<u>3.0</u>
Subtotal	19.5	15.3	15.3
Other			
Mining	1.7	1.5	1.7
Estate	2.7	2.8	2.1
Charitable Gaming	<u>2.4</u>	<u>2.4</u>	<u>2.4</u>
Subtotal	6.8	6.7	6.2
<u>Charges for Services</u>			
General Government	19.4	16.0	16.0
Natural Resources	6.5	5.2	5.2
Other	<u>1.0</u>	<u>0.8</u>	<u>0.8</u>
Subtotal	26.9	22.0	22.0

(continued on next page)

Table 3, cont. Unrestricted General Purpose Revenue
\$ Million

	Preliminary Actual <u>2001</u>	<u>2002</u>	<u>2003</u>
NON-OIL REVENUE (EXCEPT INVESTMENTS)			
<u>Licenses and Permits</u>			
Motor Vehicle	34.1	33.3	33.8
Other	<u>3.2</u>	<u>3.2</u>	<u>3.2</u>
Subtotal	37.3	36.5	37.0
<u>Fines and Forfeitures</u>			
Tobacco Settlement	21.4	-	-
Other Settlements	5.7	6.0	6.0
Fines and Forfeitures	<u>6.5</u>	<u>6.0</u>	<u>6.0</u>
Subtotal	33.6	12.0	12.0
<u>Rents and Royalties</u>			
Land Leasing, Rental and Sales	9.2	8.3	8.3
Coal Royalties	1.1	1.1	1.1
Timber Sales	0.4	0.4	0.4
Cabin Rentals	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Subtotal	10.9	10.0	10.0
<u>Federal Revenue - Intergovernmental Revenue</u>	0.3	1.0	1.0
<u>Other</u>			
Miscellaneous	35.0	35.0	35.0
Unclaimed Property	<u>0.0</u>	<u>17.0</u>	<u>3.0</u>
Subtotal	35.0	52.0	38.0
Subtotal Non-Oil Revenue (Except Investments)	328.2	301.8	291.0
INVESTMENT REVENUE			
<u>GeFONSI Pool Investments</u>	61.7	40.9	22.0
<u>Investment Loss Trust Fund</u>	0.4	0.2	0.2
<u>Interest Paid by Others</u>	<u>16.7</u>	<u>10.0</u>	<u>10.0</u>
Subtotal Investment Revenue	78.8	51.1	32.2
TOTAL UNRESTRICTED REVENUE	2,281.4	1,543.8	1,445.1

C. Oil Price Forecast

Oil revenue will continue to provide for close to 80 percent of forecast Unrestricted General Purpose Revenue through FY 2003. Two elements are critical to the oil forecast: price and volume.

The spot price of ANS is quoted by subtracting a differential from the price of West Texas Intermediate (WTI), a price that is primarily determined by transactions on the New York Mercantile Exchange (NYMEX). There is no price for Alaska oil on the NYMEX. All of Alaska's current oil production is delivered to refineries on the U.S. West Coast (including Alaska and Hawaii). Consequently, Alaska's royalty and severance tax revenue depends in large part on the market price of Alaska North Slope crude oil (ANS) at U.S. West Coast refining centers.

The table below reflects actual prices for FY 2001 and the Department of Revenue's forecast of oil prices for the 10-year period beginning with the current fiscal year, FY 2002, and continuing through FY 2010. The short-term oil price forecast (FY 2002-2003) is based on a subjective assessment of fundamental market dynamics and trend analysis by the participants at a price scenario meeting. Our long-term forecast (FY 2004-2010) is based on the premise that prices will converge to the average of ANS oil delivered to the West Coast for the 16-year period, 1986 to 2001.

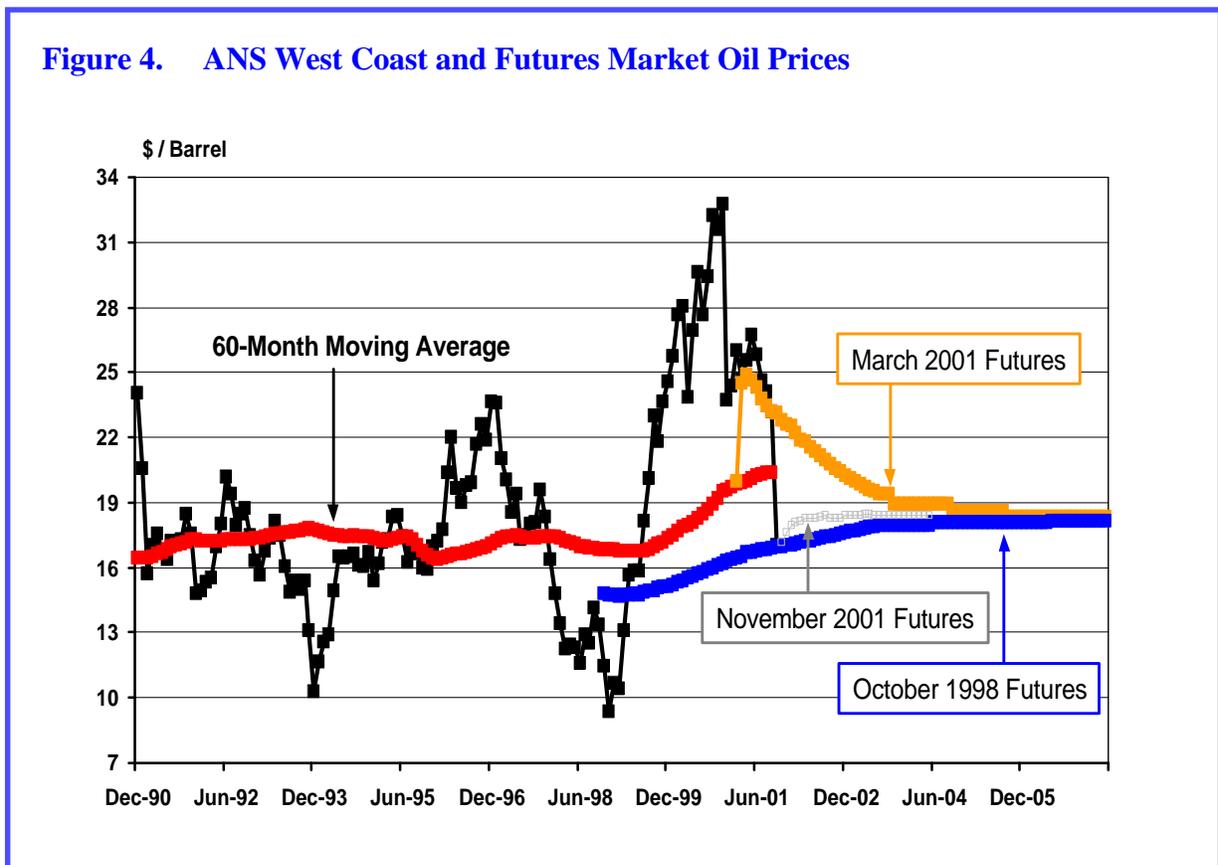
Table 4. Delivered Price for ANS Crude Oil
Average West Texas Intermediate (WTI), ANS West Coast and
ANS Wellhead
 \$ per barrel

Fiscal Year	WTI	ANS West Coast	ANS Wellhead
Prelim. Actual 2001	30.41	27.85	22.83
2002	23.06	20.55	15.27
2003	21.25	18.81	13.54
2004	22.18	19.72	14.55
2005	21.06	18.61	13.36
2006	20.00	17.50	12.16
2007	20.00	17.50	12.07
2008	20.00	17.50	11.87
2009	20.00	17.50	11.70
2010	20.00	17.50	11.55

The prices we are forecasting are consistent with the market prices experienced over the 16-year period since the 1986 oil price collapse. The figure on the next page depicts: (1) the monthly West Coast ANS market price from December 1990 through September 2001; (2) the 60-month moving average West Coast market price for the same period; and (3) a set of derived ANS futures prices for October 1998, March 2001 and November 2001.⁽¹⁾

(1) The derived ANS futures price is based on the spot market differential between WTI and ANS applied to the WTI futures prices as reported on the New York Mercantile Exchange (NYMEX).

The figure below clearly illustrates the volatility of month-to-month crude oil prices. ANS West Coast prices during the pertinent time period ranged from just under \$10 per barrel to over \$32 per barrel. The average of the 60-month moving averages shown in the figure below is \$17.50 per barrel. Finally, the derived futures market prices reflected below show that participants in that market anticipate a continuation of the post-1986 historic levels for oil prices. The derived futures price for ANS demonstrates a convergence tendency after three years whether the current price is very low (as it was in October 1998) or very high (as it was in March 2001).

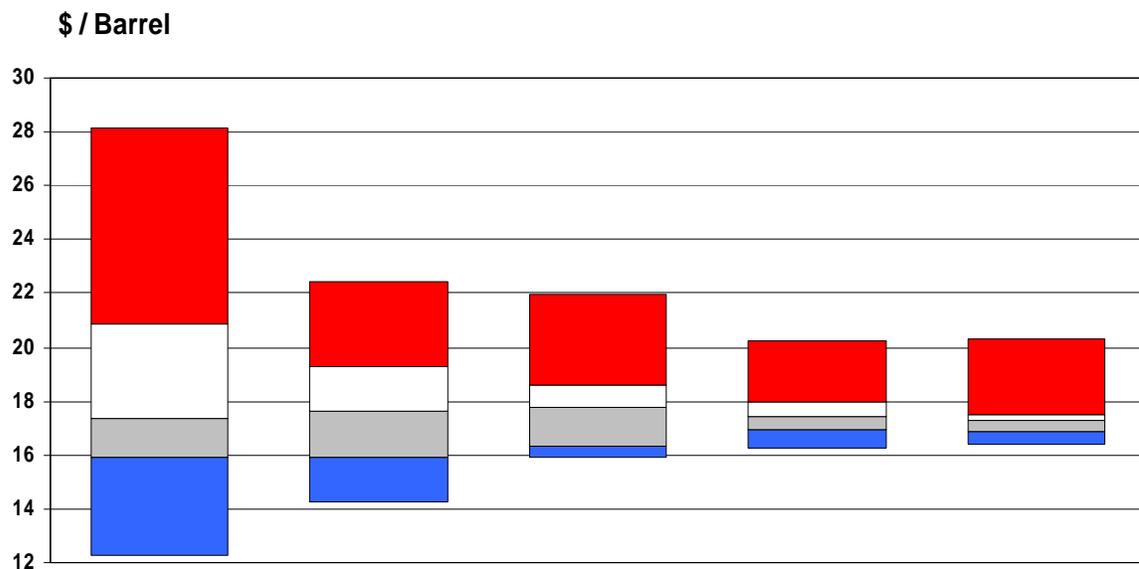


The figure on the next page reflects another analysis demonstrating both the short-term volatility and the longer-term stability of ANS West Coast market prices over the past 16 years. The left hand bar depicts the variability of ANS West Coast oil price for each of the rolling 12-month time periods (from December 1990 to September 2001). Ninety-five percent of those average prices fall between \$12.29 and \$28.14 per barrel; 50% of the time those prices fall between \$15.95 and \$20.99 per barrel, with a median price of \$17.33 per barrel.

The right hand bar depicts the variability of the rolling 60-month time period. The 60-month average ANS West Coast market prices were obviously very consistent. Ninety-five percent of those averages fall between \$16.42 and \$20.30 per barrel; 50 percent of the time, between \$16.90 and \$17.50 per barrel; and the median of those 60-month average prices is \$17.30 per barrel. The middle three bars in the figure reflect the variability of the rolling 24-month, 36-month and 48-month time periods. Note that in our forecast, we use the arithmetic average, or mean, of \$17.50 per barrel rather than the median of \$17.30 per barrel.

Those whose perspective is only one year should focus on the price range reflected in the 12-month or left hand bar. The bars to the right are more appropriate for the longer term.

**Figure 5. Cumulative Average ANS Oil Price (December 1990-September 2001)
Moving Average and Confidence Intervals**



Percentile Ranking	12-month	24-month	36-month	48-month	60-month
2.5%	28.14	26.28	21.98	20.24	20.30
25%	20.89	19.38	18.58	17.98	17.50
Median	17.33	17.63	17.75	17.44	17.30
75%	15.95	15.93	16.36	16.97	16.90
97.5%	12.29	14.27	15.90	16.25	16.42

The percentile ranking is the probability of exceeding the corresponding ANS oil price.

D. Oil Production Forecast

In 1988, ANS production peaked at 2.005 million barrels per day and has declined steadily since. The figure below reflects the historical and projected rates for ANS oil production. FY 2001 was the first full year that ANS production averaged less than 1.0 million barrels per day — daily production averaged 0.991 million barrels per day.

Thanks to the startup of Northstar, along with increasing production from the new Alpine field and satellite field developments in existing fields, we expect ANS production to again surpass the 1.0 million barrel per day level in FY 2002. Future development of recent discoveries in the National Petroleum Reserve Alaska (NPRA), further development of heavy oil in both the Kuparuk and Prudhoe Bay fields (West Sak and Shrader Bluffs), and additional satellite development are projected to keep production slightly above the 1.0 million barrel per day level through FY 2010.

A detailed field by field production forecast can be found in Appendix E on Page 130.

Figure 6. ANS Historical Production
Million Barrels/ Day

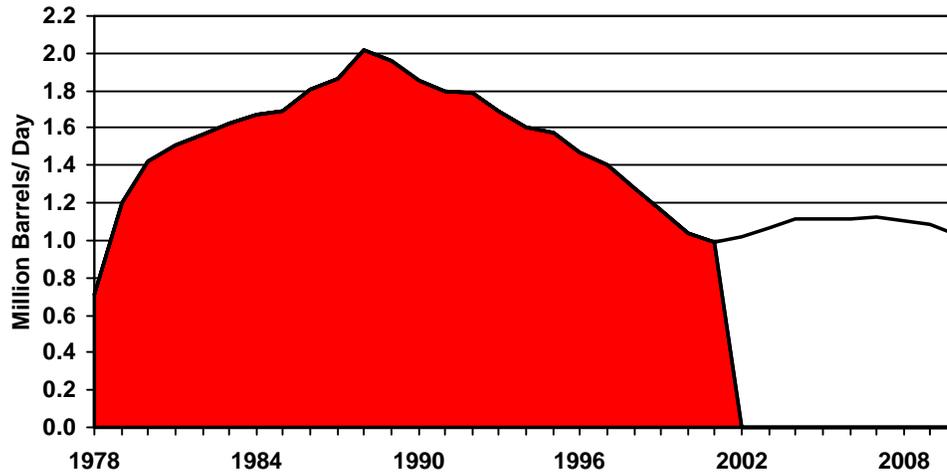


Table 5. ANS Oil Production
million barrels per day

<u>Fiscal</u> <u>Year</u>	<u>ANS</u> <u>Production</u>
Prelim. Actual 2001	0.991
2002	1.012
2003	1.070
2004	1.111
2005	1.120
2006	1.119
2007	1.106
2008	1.110
2009	1.083
2010	1.036

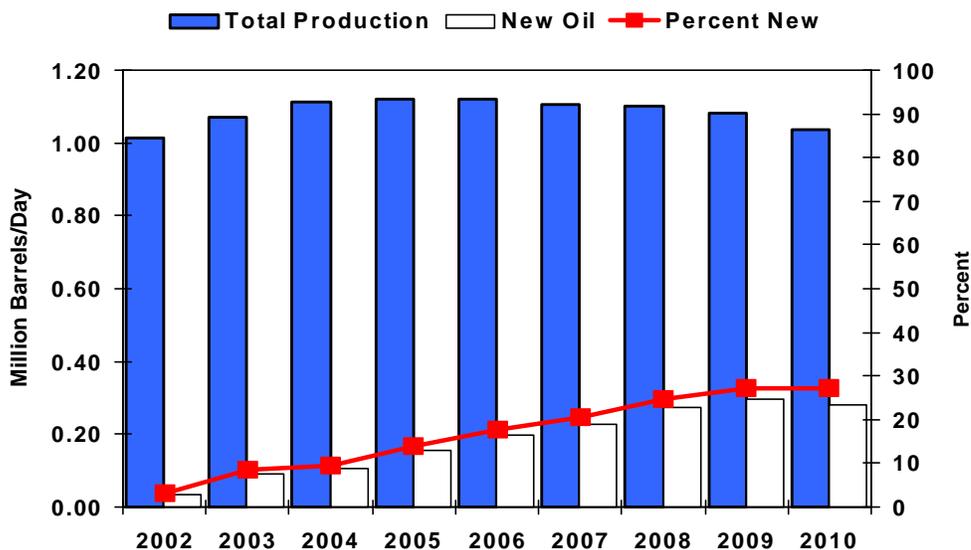
New Oil Development

As the volumes from the giant Prudhoe Bay and Kuparuk fields continue to decline, some of the decline in production will be offset by new oil development. In our forecast, new oil is defined as crude already discovered and likely to be developed. By FY 2008, as the table and figure below show, over one-quarter of our forecasted oil production will come from fields not currently producing oil.

Table 6. New Oil as a Percentage of Total Oil
million barrels per day

<u>Fiscal Year</u>	<u>New Oil</u>	<u>Total Oil</u>	<u>New Oil as Percent of Total Oil</u>
2002	0.0324	1.0121	3.2%
2003	0.0919	1.0699	8.6%
2004	0.1068	1.1114	9.6%
2005	0.1542	1.1195	13.8%
2006	0.1972	1.1192	17.6%
2007	0.2279	1.1063	20.6%
2008	0.2716	1.0995	24.7%
2009	0.2951	1.0832	27.2%
2010	0.2806	1.0359	27.1%

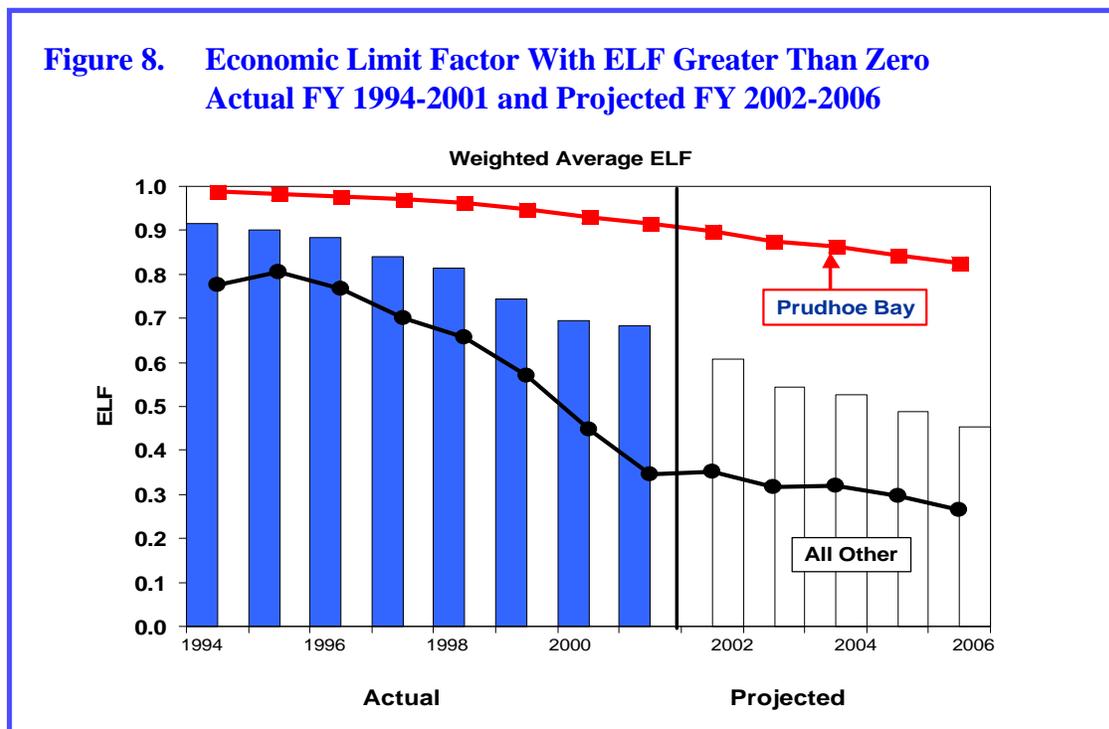
Figure 7. New Oil as a Percentage of Projected Oil



Economic Limit Factor

The average rate of the production tax on the North Slope has been falling as the result of the tax adjustment known as the Economic Limit Factor (ELF). The ELF is a factor that reduces the nominal production tax rate on a producing reservoir based on the average rate of production from the reservoir and the average productivity of the wells producing that reservoir. Since oil production rates and well productivity decline over time as an oil field is being produced, the average production tax rate will fall as well. Further, the ELF reduces the tax rate on smaller oil fields such that most fields producing less than 20,000 barrels per day will pay little or no production tax.

Since much of Alaska's current and projected North Slope oil production will continue to come from old fields and new production will come from small fields, the average tax rate will continue to fall. The average oil production tax rate for North Slope production in FY 1994 was 13.5%; we project that for FY 2002 it will average 8.75%. The figure below illustrates the actual weighted average ELF for North Slope oil production since 1994 and our projections of that weighted average through FY 2006. The Prudhoe Bay ELF is also shown as well as the average ELF for all of the other North Slope fields that have ELF's that are greater than zero.



E. Longer-Term Unrestricted Revenue Outlook

Using the price and volume components developed for this fall 2001 forecast, the table below summarizes the department's forecast of total Unrestricted General Purpose Revenue through FY 2010.

**Table 7. Total Unrestricted General Purpose Revenue
Preliminary Actual FY 2001 and Projected FY 2002-2010
\$ Million**

Fiscal Year	(see Table 13)	(see Table 21)	(see Table 30)	Unrestricted Revenue	Percent from Oil
	Unrestricted Oil Revenue	Unrestricted Non-Oil Revenue	Unrestricted Investment Revenue		
Prelim. Actual 2001	1,874.4	328.2	78.8	2,281.4	82
2002	1,190.9	301.8	51.1	1,543.8	77
2003	1,121.9	291.0	32.2	1,445.1	78
2004	1,193.2	293.2	32.2	1,518.5	79
2005	1,069.7	294.4	32.2	1,396.3	77
2006	968.6	295.6	32.2	1,296.4	75
2007	905.5	296.7	32.2	1,234.5	73
2008	847.4	295.5	32.2	1,175.1	72
2009	795.9	294.7	32.2	1,122.8	71
2010	741.6	296.2	32.2	1,070.1	69

F. Constitutional Budget Reserve

The table below reflects the amount needed to make up the difference between the Unrestricted General Purpose Revenue the Department of Revenue forecasts and an annual General Fund budget of \$2.5 billion⁽¹⁾ for each year from FY 2002 through FY 2010.

Table 8. Difference Between Unrestricted General Purpose Revenue and General Fund Budget — “The Gap” ⁽¹⁾
\$ Million

<u>Fiscal Year</u>	<u>Total Unrestricted General Purpose Revenue</u>	<u>General Fund Budget ⁽¹⁾</u>	<u>Difference</u>
2002	1,543.8	2,408.5	(864.7)
2003	1,445.1	2,523.0	(1,077.9)
2004	1,518.5	2,523.0	(1,004.5)
2005	1,396.3	2,523.0	(1,126.7)
2006	1,296.4	2,523.0	(1,226.6)
2007	1,234.5	2,523.0	(1,288.5)
2008	1,175.1	2,523.0	(1,347.9)
2009	1,122.8	2,523.0	(1,400.2)
2010	1,070.1	2,523.0	(1,452.9)

(1) Any budget figure used to derive “The Gap” will have its detractors. What about cuts? What about funding urgent needs? What about inflation and population growth? This amount, based on a FY 2002 General Fund Budget of \$2,408.5 million and a FY 2003-2010 budget of \$2,523 million, simply provides a reference point for analysis.

As approved by voters in 1990, all of the money from oil and gas and mining tax and royalty settlements are deposited into the Constitutional Budget Reserve Fund (CBRF). Over the past nine years the state has deposited about \$5.5 billion into the reserve fund and has earned \$1.2 billion on the money.

For all but two of those years, the state has relied on the CBRF to fill the difference between unrestricted revenue and the annual state budget.

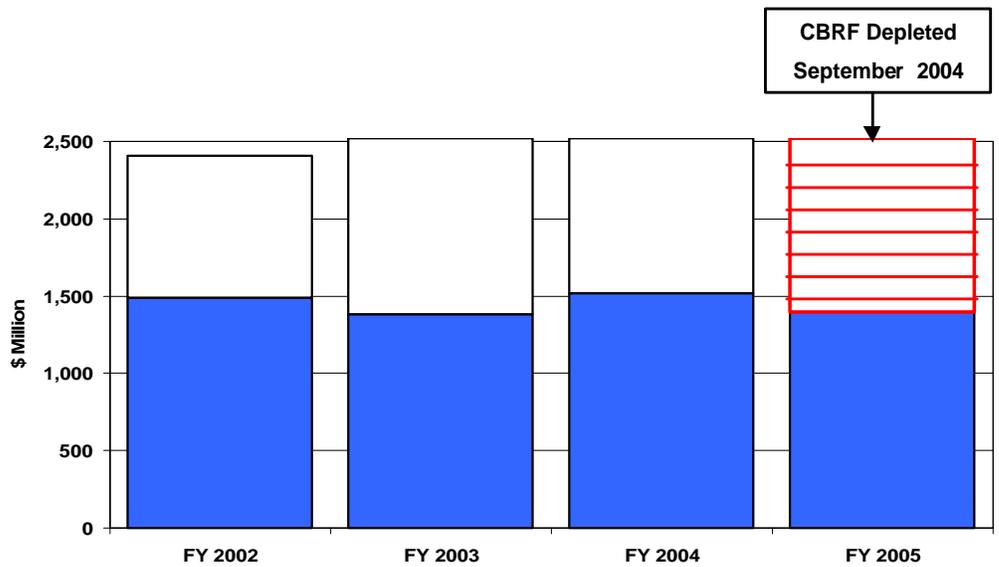
Through November 2001, more than \$4 billion has been withdrawn from the CBRF to balance the budget, leaving a balance of \$2.8 billion.

This table reflects the CBRF depletion matrix and the time period the fund could continue to make up the difference between Unrestricted General Purpose Revenue and the General Fund budget at various oil prices and budget levels. For example, assuming no change in the state's fiscal system and if we are correct in our oil price forecast and the General Fund budget remains at \$2,408.5 million in FY 2002 and \$2,523 million per year thereafter, the CBRF will be exhausted in September 2004.

Table 9. CBRF Depletion Matrix
\$ per barrel

Annual Budget Change	\$12.50	Fall 2001 Forecast	\$25.50
+1.0%	Sep-2003	Aug-2004	Feb-2006
0.0%	Sep-2003	Sep-2004	Jul-2006
-1.0%	Sep-2003	Oct-2004	Nov-2006

Figure 9. Anticipated Life of the Constitutional Budget Reserve Fund



Flat Budget of \$2,408.5 million in FY 2002 and \$2,523 million in FY 2003-2010

Covered By
■ General Fund Unrestricted Revenue
 Draw from Current CBRF Earnings and Draw from CBRF in Excess of Earnings (includes current deposits)

Not Covered

IV. ALASKA'S FISCAL OPTIONS

What Are the Options For Alaska's Fiscal Future?

Any of several events could produce new revenues to reduce the budget gap and help postpone or perhaps even prevent the demise of the Constitutional Budget Reserve Fund. Among the possibilities are unexpectedly high oil prices, large volumes of undiscovered oil, a natural gas project, broad-based taxes such as a statewide sales tax or personal income tax, or use of Permanent Fund earnings. This revenue forecast assumes none of the above. We based our forecast on oil prices within historic averages and on known quantities of oil and existing taxes. And although some Alaskans, and the legislature's Fiscal Policy Caucus, have discussed the options of instituting broad-based taxes and using some of the earnings from the Permanent Fund to help pay for public services, we did not include any money from either of those sources in this forecast.

However, the future is uncertain, and any of the above possibilities could become reality in time.

To help judge the possibilities and their economic value, we offer the following information:

Could Higher Oil Prices Fill the Fiscal Gap?

The short answer is no, not unless you believe in the improbable. Still, that doesn't stop Alaskans from hoping.

A quick study of the numbers, however, shows it certainly is extremely unlikely. Alaska North Slope crude oil would have to fetch higher prices for a longer period than at any time in the pipeline's 24-year history. And not just a little higher for a short time, but a lot higher for a long time.

▪ How much is the fiscal gap at high, or low, oil prices?

At \$30 oil, Alaska would still face a half-billion-dollar-a-year fiscal gap over the next 10 years.

At \$10 oil, the gap would range between \$1.7 billion and \$2 billion a year.

Figure 10.
Annual Fiscal Gap at \$30/ Barrel Oil

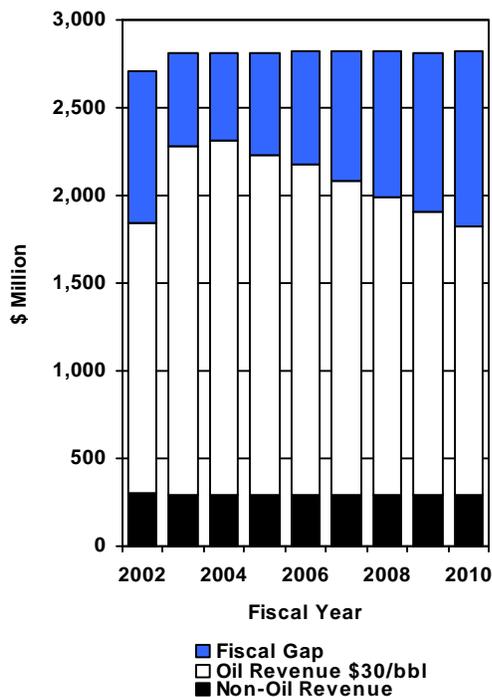
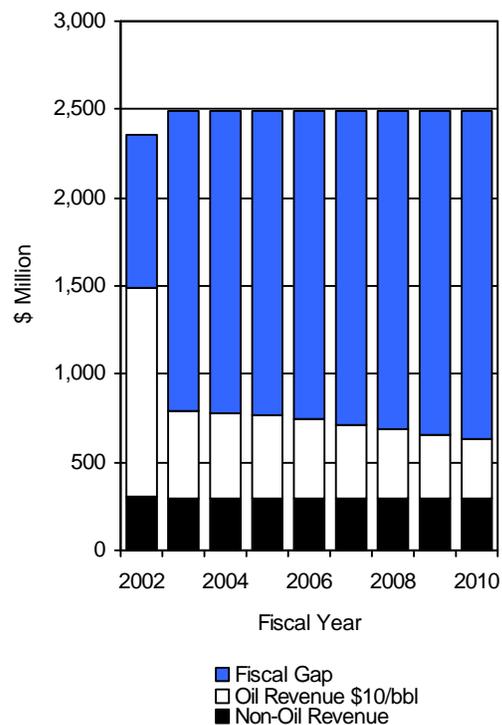
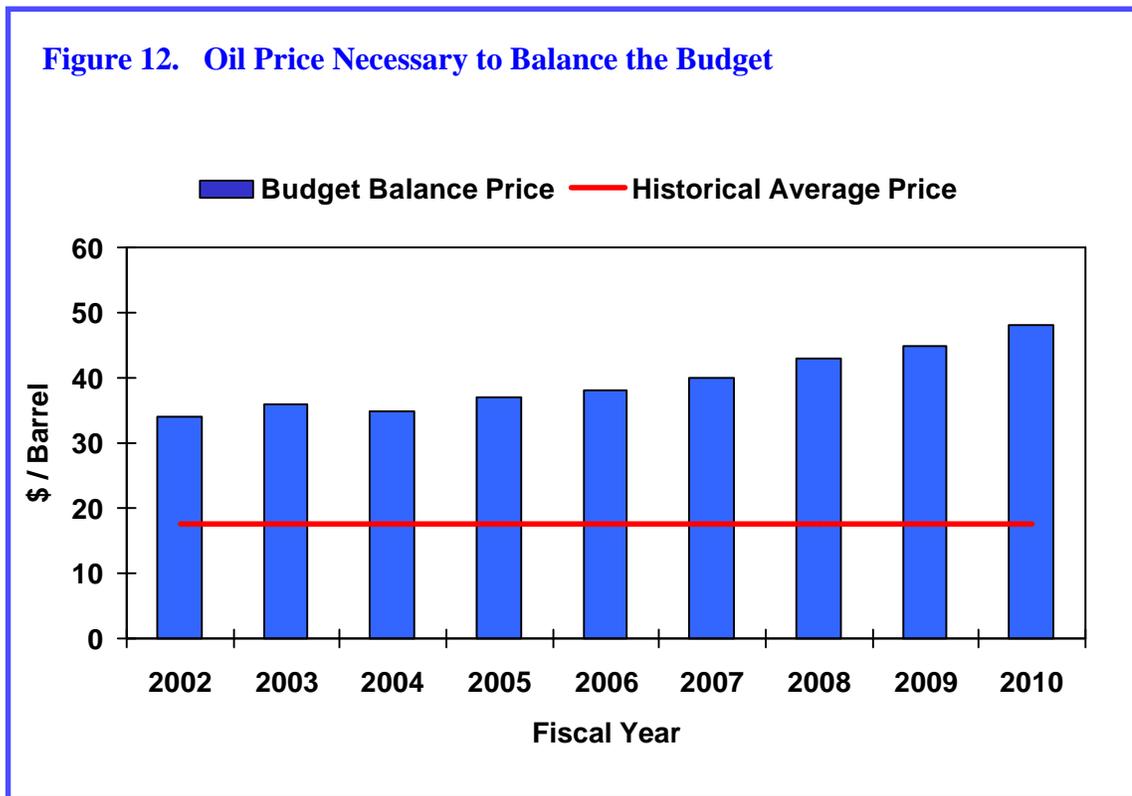


Figure 11.
Annual Fiscal Gap at \$10/ Barrel Oil



- How high would oil prices have to climb to balance the state budget through the end of the decade?

Although we believe North Slope oil production will average around 1 million barrels per day through 2010, the state's declining production tax rate requires a higher price every year just to maintain the same revenues. North Slope oil would have to average \$34 a barrel in Fiscal 2002 to balance the budget. The price would have to average \$39.50 a barrel over the next eight years to cover a \$2.5 billion state budget, but that's just the average. The number gets further out of reach each year. In Fiscal 2010, the price would need to be roughly \$48 a barrel.



- If we want to continue using the Budget Reserve Fund to fill the gap, how high would oil prices have to climb to keep the fund alive until the end of the decade?

To reach 2010 with something, anything, in the Budget Reserve Fund would require oil averaging over \$30 a barrel for the next eight years — more than 60% higher than the Department of Revenue forecast and 50% higher than U.S. Department of Energy estimates.

Keep in mind that prices would have to hold fairly steady around the \$30 average — the state could not afford a couple of bad years along the way if we wanted to maintain the Budget Reserve Fund and pay our bills. For example, if North Slope oil dipped below \$15 for a year or more, as has happened three times since 1989, the Budget Reserve Fund would take such a deep hit that it might hit empty even if prices rebounded the next year.

▪ How likely is it that oil prices will climb high enough to balance the budget in some years, or at least extend the life of the Budget Reserve Fund?

Prices could rise above projections in the short term — maybe even enough to balance the budget for a little while. But it would take a major, sustained global shortage of oil to create the consistent, high oil prices for the long term that could save the Budget Reserve Fund, and such a shortage is extremely unlikely.

Oil is a market-traded commodity, with the forces of supply and demand determining the price. When supply exceeds the demand, which is the world situation this year, prices fall. As oil gets cheaper, demand recovers, which, over time, leads to higher prices as demand builds to match supply. But when demand gets too high, squeezing the supply, prices rise and demand falls back down. Prices eventually come down, too. Oil prices don't just move up and down, they always move up and down. High oil prices also push users to rely more on substitute fuels and conservation, serving as a natural relief valve to cut demand when prices climb too far. Because of how the market works, it is highly unlikely that oil prices could ever stay high enough long enough to solve Alaska's budget problem.

Here are some numbers to consider:

- Since a transparent market price for ANS West Coast deliveries emerged in the mid-1980s, Alaska North Slope crude oil delivered to California and Washington refineries has never averaged more than \$28 a barrel in a year. As if that was not sobering enough, the price has averaged below \$20 a barrel for all but three years since 1988.
- The West Coast ANS price has averaged above \$30 a barrel in only six months of the past 175 months, and has never reached the \$33 a barrel that Alaska would need for the entire year to balance the Fiscal 2002 budget.
- Any discussion of the potential for high oil prices would not be complete without looking at the low side of oil prices. Alaska North Slope crude averaged \$9.39 a barrel in December 1998, its lowest monthly price ever.
- And while North Slope oil has exceeded \$30 a barrel on the West Coast six out of the past 175 months, it has fallen below \$15 a barrel in 39 of those months.
- If OPEC nations wage a price war with non-OPEC producers, and if oil drops to \$10 a barrel as it did in late 1998, and if the price stays on the bottom for two years, the Budget Reserve Fund would be empty by September 2003.

Higher — or Lower — Oil Production

Oil production could exceed our forecast, which includes only barrels from fields that are producing or have been discovered. For those that have been discovered, we included production only from those fields we expect to start pumping by 2010.

It is possible, however, that some of the discovered fields could start producing sooner than expected, meaning more production and more revenue to the state. We also expect new oil discoveries on the North Slope, but we do not believe these new fields will begin producing before 2010.

However, these undiscovered fields might also begin producing sooner. We have estimated in this section how much additional production we believe could possibly come from the accelerated development of known reserves and new discoveries.

On the other side of the fiscal coin, it is possible that some of the forecast production from as yet undeveloped fields could be postponed past the expected start-up dates in this forecast. For every upside there is a downside.

Possible Higher Oil Production

We forecast that "new oil," oil that has been discovered but is not yet flowing through TAPS, will constitute a substantial 13.8% of North Slope production by Fiscal 2005 and 27.1% by Fiscal 2010. Clearly, Alaska is depending on a fair amount of this new oil just to meet our revenue forecast.

But what about undiscovered oil? Oil companies continue to lease new lands and drill exploratory wells in search of reserves, and it is future production from these areas that is harder to predict.

To come up with a credible estimate of potential undiscovered oil that might be produced before 2010, we relied on geological work done by the U.S. Geological Survey and the federal Bureau of Land Management. We then derived an estimate of the North Slope's undiscovered, economically recoverable barrels that could possibly come into production before 2011. We provide in Table 10 our estimate of the potential additional production from these undiscovered reserves over the next decade. These barrels would come from three areas: the National Petroleum Reserve-Alaska (NPRA), the Foothills and the area east of Prudhoe Bay and the Central North Slope. We do not include any production from the Arctic National Wildlife Refuge in this table because even if Congress this winter gives the go-ahead for drilling in ANWR we would not expect to see any production until after 2010.

Table 10. Additional Potential Barrels from Undiscovered Fields
million barrels per day

<u>Fiscal Year</u>	<u>NPRA</u>	<u>Foothills and East of Prudhoe Bay</u>	<u>Central North Slope Satellites</u>	<u>Total</u>
2006			0.014	0.014
2007	0.040		0.028	0.068
2008	0.037	0.034	0.045	0.117
2009	0.035	0.060	0.065	0.159
2010	0.039	0.083	0.082	0.203

If all of the additional undiscovered production were to come online as estimated in Table 10 — 203,000 barrels per day by Fiscal 2010 — the state would receive an estimated \$173 million in additional oil and gas tax and royalty payments in Fiscal 2010. That's a little more than 10% of what would be needed to close the budget gap that year. The revenue to the state is held down by the Economic Limit Factor and the lower production tax rate charged on oil flow for the first five years of production from new fields.

This undiscovered new oil could come from:

National Petroleum Reserve-Alaska.

The Bureau of Land Management's 1998 projection of 600 million barrels of economically recoverable reserves in NPRA might well prove to be too conservative. Phillips and Anadrako have drilled six wells and a side-track in their first two NPRA exploration seasons, and announced in May 2001 that they had discovered three separate hydrocarbon accumulations. The area encompassed by the wells is comparable to the area overlying the Alpine reservoir, with potential reserves in Alpine's 429 million barrel neighborhood. Phillips and Anadarko will conduct additional drilling and well data analysis this winter to establish the commercial value of their find.

For the sake of this exercise, we estimate these NPRA discoveries could go into production in the second quarter of Fiscal 2007 at 40,000 barrels per day.

It is likely that the recent NPRA discoveries are just the beginning. Phillips and its partners have not stopped exploring their NPRA leases, and Phillips recently requested permits for 15 additional well sites for the 2001-2006 drilling seasons. Phillips isn't the only company exploring in the NPRA. In fact, only a quarter of the money spent in the first NPRA sale was for leases overlying Phillips's recent discoveries. Anadarko plans to drill two wells at its Altamura prospect in the NPRA this exploration season. The BLM plans additional lease sales in 2002 and 2004.

If NPRA yielded 600 million barrels rather than our projected 325 million barrels, the larger reserves could add an additional 37,000 barrels of daily production to our estimate by 2010.

Foothills and East of Prudhoe Bay.

Though the Foothills petroleum potential is mostly for gas reserves, the USGS estimates there are 500 million barrels of technically recoverable reserves in the Central Foothills.⁽¹⁾ Based on a 1993 estimate for costs and exploration success, the USGS forecasts that 50% of this technically recoverable oil would be economically recoverable at an \$18 per barrel ANS price, and 70% of this oil would be recoverable at a \$30 per barrel ANS price.⁽²⁾ To take into account technological advances that have lowered costs and increased exploration efficiency, we assume that the midpoint (60%, or 300 million barrels) of the technically recoverable oil could be economically recoverable for our estimate of undiscovered oil production.

For this discussion, we estimate Foothills production could be 83,000 barrels per day by Fiscal 2010.

(1) See USGS Open-File Report 95-75I, "Economics and undiscovered conventional oil and gas accumulations in the 1995 National Assessment of U.S. Oil and Gas Resources: Alaska", by Emil Attanasi and Ken Bird ("USGS[95]") at Table 3, Page 37.

(2) USGS[95] at Table 3, Page 37.

Central North Slope Satellites and the Beaufort Sea.

The USGS in 1995 estimated perhaps 4.3 billion barrels of technically recoverable, undiscovered oil in the central and eastern coastal regions of the North Slope. The USGS believed this oil would mainly be in the turbidite and Barrow Arch Beaufortian geological plays.⁽³⁾ The USGS also stated that less than half of this technically recoverable oil would be economically recoverable.⁽⁴⁾ Of the estimated 3.6 billion barrels of technically recoverable oil remaining net of post-1995 discoveries, 1.5 billion barrels could be economically recoverable.

To find and produce these reserves will require substantial investments in exploration and development, and due to capital constraints these reserves would come on slowly. We derived a conservative production forecast by assuming a minimum of 75 million barrels of additional Central North Slope reserves could be put into production each year starting in 2003. This estimate would give Alaska an additional 82,000 barrels a day of production by Fiscal 2010.

Arctic National Wildlife Refuge (ANWR).

The U.S. Department of Energy estimates it could take a decade after approval of ANWR exploration for the first production.⁽⁵⁾ Even if Congress approves ANWR this winter, it is likely the first production would not come online until 2011, removing ANWR from our estimate of undiscovered oil production for this decade.⁽⁶⁾

Possible Lower Oil Production

The North Slope, like other mature provinces, depends upon production from new fields to offset declines in older fields. In our predictions of oil flow from discovered fields, which already are included in our revenue forecast, we include barrels from anticipated developments in the second half of this decade from Point Thomson (Fiscal 2008), Sourdough (2008), Yukon Gold (2009), Sandpiper (2008) and Nanuq (2005).

(3) USGS[95] Table 3, Page 37.

(4) Of the Eastern Coastal region's 1,632 million barrels of technically recoverable reserves, 39% (638 million barrels) should be economically recoverable. Of the Central Coastal region's 2,002 million barrels of remaining technically recoverable reserves, 45.75% (916 million barrels) should be economically recoverable. The economic recovery factors reflect mid-points between the \$18 and \$30 cases of USGS[95] Table 3.

(5) Energy Information Association (EIA) report entitled "Potential Oil Production from the Coastal Plain of the Arctic National Wildlife Refuge: Updated Assessment" reads, in part, "Seven to 12 years are estimated to be required from an approval to explore and develop to first production from the ANWR area. This study uses nine years to 2010." The EIA estimated that the full 10.3 billion barrels of technically recoverable oil would be economic to recover.

(6) A lease sale in 2004 could yield the state approximately \$160 million. Assuming a 10-cent rule of thumb as a bonus bid, the companies would pay \$320 million for access to 3.2 billion barrels. The state would receive half of this amount if revenue is shared in the same percentages as it is for the NPRA.

Table 11 shows our projections for oil production from these fields, totaling 103,000 barrels per day by Fiscal 2010. These fields represent almost 40% of the "new oil" included in our revenue forecast for Fiscal 2010, and also represent a substantial economic loss to the state if they do not start up as expected.

Table 11. Anticipated Production from New Fields This Decade
thousand barrels per day

<u>Fiscal Year</u>	<u>Point Thompson</u>	<u>Sourdough</u>	<u>Yukon Gold</u>	<u>Liberty</u>	<u>Sandpiper</u>	<u>Total</u>
2004						
2005				35		35
2006				55		55
2007				52		52
2008	20	10		42	12	84
2009	30	15	10	34	15	104
2010	30	15	15	29	14	103

Some of these developments could be deferred or cancelled. Specifically, Point Thomson, a field discovered in the mid-1970s and still undeveloped, might remain undeveloped for the next 10 years. A gas condensate reservoir such as Point Thomson is expensive to develop because of the facilities needed to cycle its high-pressure gas. After extensive negotiations, the state Department of Natural Resources and the Point Thomson Unit Owners recently agreed to a development plan that could result in liquid production by 2008. However, the Point Thomson Unit owners could forego development and pay compensation to the state for unfulfilled drilling obligations. The Department of Natural Resources estimates there are about 200 million barrels of liquid reserves at Point Thomson.

Sourdough and Yukon Gold are two small oil reservoirs located near Point Thomson. If Point Thomson is developed, it is more likely these fields would come online a few years later. However, if Point Thomson is not developed, these small reservoirs probably would not be developed either. To account for this uncertain production in our forecast, we have reduced the estimated reserves by 50%, resulting in around 60 million barrels recoverable from each of these two fields.

We forecast that an offshore field, Liberty, will be brought on line in Fiscal 2005. After experiencing significant cost overruns with Northstar, however, BP may be less likely to proceed with this 180-million-barrel field. We also estimate that 59 million barrels of oil will be recoverable from Sandpiper, an offshore field. This field also might not be developed.

Prudhoe Bay has been in decline since 1988. We forecast that Prudhoe Bay will decline at a slower rate than it did during most of the 1990s, with production falling by an average 5.3% per year 2001 and 2011. However, the steeper decline rate of 1992 to 1999 could return in 2002 if development drilling is less than we have projected. If the 1992-to-1999 decline rate continues throughout this decade, Prudhoe Bay production would run about 122,000 barrels per day under our forecast for Fiscal 2010. Such a steep production drop could reduce state revenues by an estimated \$191 million in 2010.

Alaska Natural Gas Project

If the gasline is built, how much could it help fill the state's budget gap? First, the project has its own economical hurdles to jump over.

The governor, Alaska's congressional delegation, the state legislature and many community leaders are actively supporting a pipeline project following the Alaska Highway. A 4 billion cubic feet per day Alaska Highway gasline would be expensive, costing an estimated \$14.3 billion to deliver the gas to Chicago. A gas treatment plant, estimated at \$2.6 billion, also would be needed to remove impurities in much of the North Slope gas. Recently, a joint study team comprised of the major North Slope producers said the project is not economic based on the preliminary cost estimate of \$17.9 billion and certain market assumptions. However, the study team has been trying to reduce the project's costs, and the governor, the legislature and others are pushing for federal tax incentives to further help reduce the project's costs. If all of the efforts are successful, and if there are no regulatory delays, the producers estimate the gasline could start making deliveries by 2008.

If the project is built, the state would collect revenue in four ways: royalties, production taxes, property taxes and corporate income taxes. An Alaska Highway gasline project under the state's existing fiscal system could yield as much as \$400 million a year to the state's General Fund by Fiscal 2010. That's using the producers' study team cost numbers.

On the high side, what if the producers — or other partners — find a way to reduce construction costs by 20%? And what if the gas brings \$4 per thousand cubic feet on the market, instead of \$3.50 as projected in most models? With such favorable economics, the state could receive as much as \$700 million in tax and royalty revenue in Fiscal 2010.

(1) Some interested parties are considering the possibility of reaching the U.S. market by shipping North Slope gas as LNG to the West Coast or Mexico, or to markets in the Far East. The oil companies also are reviewing a pipeline route to the Lower 48 that would go under the Beaufort Sea and tie in to gas reserves in Canada's Mackenzie Delta where the line would head upriver to connect with the supply grid in central Alberta.

The Economic Limit Factor

As you think about the state's fiscal situation, it's also worthwhile to look at existing revenue sources and ask if they are working as intended. A major part of the state's oil and gas tax structure is the Economic Limit Factor.

Alaska oil production tax revenues have declined rapidly over the past several years due, in part, to the ELF. The ELF is a multiplier between 0 and 1 that reduces the actual tax rate for a field, based on average well productivity and the field's total daily production. One of the principal purposes of the ELF is to ensure that the production tax does not discourage development of smaller oil and gas fields.

The ELF formula is complicated, but the result is the smaller the field or less productive the wells, the lower the tax rate.

$$\text{ELF} = \left[1 - \frac{(300 \times \text{wells})}{\text{volume}} \right] \left[\frac{(150,000)}{\text{volume}} \right]^{1.53333}$$

"Wells" is the number of producing wells in the field and "volume" is the total daily production for the field. Under the formula, the smaller the field the smaller the ELF factor, or fractional multiplier, to apply against the full production tax rate. The larger or more productive the field, the larger the fractional multiplier to apply to the tax rate.

The full oil production tax rate is 15%, with a 12.25% rate for the first five years of a field's production. For example, if the ELF were 0.5, the effective tax rate would be 7.5% (15% times 0.5). If the ELF for a smaller field were 0.2, the actual tax rate would be 3% (15% times 0.2).

As field or well productivity declines, the ELF will decline as well. Because the two factors of well and field productivity are related exponentially in the ELF equation, the drop in the ELF will be much steeper than if either of the two factors were applied alone.

The current ELF formula took effect in 1989. One idea behind the ELF was that the actual tax rate should decline over time so that the production tax does not cause fields to prematurely shut down as they become less economic due to falling production. Since 1989, the following trends in North Slope oil development have resulted in a larger ELF discount and a marked decline in the average tax rate and, subsequently, state revenues:

- The rapid decline in production from older, larger fields.
- No discoveries of new, large fields sufficient to offset the decline in the largest fields.
- Exploration and development of new, smaller "standalone" fields with maximum production of 50,000 to 100,000 barrels per day.
- Development of satellite fields with maximum production in the range of 5,000 to 50,000 barrels per day. The ELF reduces the tax rate on these smaller fields such that most fields producing less than 20,000 barrels per day pay little or no production tax. These satellite fields use existing processing facilities at larger fields.

The ELF Effect on Revenue

In FY 1990, non-royalty North Slope production was about 570 million barrels and the ELF was 0.94. Applied against the full tax rate of 15%, the average ELF produced an actual, average tax rate of 14.1%. Assuming a \$15 per barrel tax base, the production tax revenues to the state would have been \$1.206 billion.

$$570 \text{ million barrels} \times \$15 \times 14.1\% = \$1.206 \text{ billion}$$

In FY 2000, production was down to 365 million barrels, a 34% decline, and the average North Slope ELF was 0.69, for an actual rate of 10.35%. The revenues at \$15 per barrel would have been \$567 million.

$$365 \text{ million barrels} \times \$15 \times 10.35\% = \$567 \text{ million}$$

Although production fell 34% from 1990 to 2000, total production tax revenues over that same period — because of ELF — at the same hypothetical \$15 wellhead price dropped 53%. And while we forecast North Slope production remaining relatively flat between 2002 and 2010, because of ELF the average tax rate will fall 52%. It is reasonable for the ELF factor to push tax rates lower as production declines; fixed operating costs will increase on a per barrel basis, and there may be additional operating expenses to cover factors such as gas and water handling. In addition, it is reasonable for the ELF to decline to zero by the end of a field's life.

However, does the existing ELF formula reduce tax rates too quickly? At Kuparuk, for example, 2000 production was 212,000 barrels per day and the ELF was 0.60. By 2010, production is expected to still hold above 100,000 barrels per day, but the ELF will be zero. The field is forecast to keep producing 10 years beyond that. Is the ELF going to zero sooner than it needs to ensure maximum production?

This can be seen in another way. Under the existing ELF, for example, a field of 50,000 barrels per day with an average per well productivity of 450 barrels per day would have an ELF of 0.003. A 200,000 barrels per day field with the same well productivity would have an ELF of 0.493. The smaller field's actual production tax rate would be 0.045%, and the larger field would pay a production tax of 7.395%. It is doubtful that the per barrel operating costs of the two fields would be so different as to justify the larger field paying a tax rate 164 times higher than the other field. It is worth asking: Is the ELF formula doing its job the way it should, or is does it need changing?

As mentioned above, one of the changes over the past 10 years has been the development of satellite fields, which share existing facilities with larger fields. These fields have lower production, with maximum levels in the 5,000 to 50,000 barrels per day range. The ELFs associated with these satellite fields are very low, and zero in many cases. However, given the degree to which these fields share costs with large, profitable fields, and the degree to which many of these costs have already been recovered, the economics of such fields are not the same as those of similarly sized fields that stand alone.

One possible modification to lessen these problems would be to have separate components in the ELF formula for total field production and well productivity. While both of these are key indicators of profitability, they are largely independent. Thus, rather than treat them exponentially, where their effects overexaggerate economic tendencies when mixed, the ELF formula could be modified so that these distinct features could be summed.

For example, the ELF could consist of a total field productivity component and a separate well productivity component. Each of these components could be weighted 50% in the final ELF factor for each field.

This would result in less drastic swings in tax rates as field or well productivity changes. In general, where rates are now high they would be lower, and where they are now low they would be higher. The ELF would decline less drastically over time.

As a side benefit, this would also make the ELF easier to understand.

There are two other major problems with the production tax. First, because the tax rate is fixed, the government's share of profits is high when profits are low, and low when profits are high. This is called a "regressive" system and creates an unbalanced situation. At low prices or high costs, the burden of the tax creates additional investment risk. At high prices the state's share of the profits is much less than in internationally comparable conditions and the state leaves money on the table.

In addition, oil price could be incorporated into the ELF formula, so that the tax rate would vary with oil price. Bringing price into the ELF formula would create a "progressive" tax system, where the government's share of profits would vary proportionally with the profits. Having the tax rate vary with price is another way to better balance the tax system under a wide range of economic conditions, while maintaining international competitiveness for attracting investment.

The other major problem with the production tax is that it does not encourage re-investment in the state. Alaska's tax system is based on gross revenue at the wellhead: exploration, development and upstream operating costs are not deductible. Unlike other jurisdictions, the regressive system in Alaska does not allow deduction of exploration and development costs. In those other jurisdictions, taxes are reduced by investing there, and companies that invest pay less taxes than those that do not.

There is no such mechanism in Alaska. This may induce companies to take their Alaska profits and invest them elsewhere. A tax credit for exploration and development would enhance interest in investing here. The credit could be capped so as not to drop the actual production tax rate too much, but enough to be attractive to exploration and development.

The current ELF mechanism, established in 1989, was predicated on conditions that were in place then. Those conditions have changed. Would it be appropriate to change the ELF as a consequence? While frequent changes in resource taxes create instability — particularly where the economics are marginal — tax changes made in response to new conditions or structural deficiencies may be in the public interest.

Broad-based Taxes

Personal Income Tax

As Alaska moves closer to the day when the CBRF hits empty, more people are discussing the possibility of bringing back the personal income tax — Alaskans paid income taxes until 1980, when the legislature abolished the tax — and perhaps instituting a statewide sales tax. Most people probably do not remember, but Alaska's personal income tax was fairly heavy, and if the same rates and rules were in effect today that were in effect in the 1970s, Alaskans would pay about \$750 million this year in state taxes.

Of course, no one is suggesting such a heavy tax burden on wage earners. However, as Alaska faces a billion-dollar-plus annual shortfall in paying for public services, the possibility of an income tax often comes up at public meetings.

A personal income tax could be assessed on one of three options: The tax could be computed on:

- Adjusted gross income (no deductions for children, charitable donations, home mortgage payments or other typical deductions).
- Taxable income (income after deductions allowed).
- Federal tax liability (a percentage of each taxpayer's federal tax bill).

An income tax would collect money from non-residents working in Alaska. There are no exact numbers for non-resident wages in Alaska, but estimates range from 3% to 10% and we figure the true number is probably in the middle. Even at 6% or so, an income tax that raised \$300 million would collect almost \$20 million a year from non-residents.

Other points to consider in whether or how to adopt a state income tax are:

- The tax would be deductible from federal income taxes for Alaskans who itemize. IRS statistics indicate that about 25% of Alaska taxpayers itemize their deductions.
- The tax rate could be flat — everyone pays the same percentage of their income — or the rates could be graduated so that wealthier people paid higher rates (just like the federal tax table).

The table below represents some sample income tax rates (expressed as a percentage) and the revenue each would generate.

Table 12. Income Tax Rates Needed to Reach Revenue Projections

<u>\$ Million</u> <u>Revenue</u>	Percent <u>Adjusted</u> <u>Gross Income</u>	Percent <u>Federal</u> <u>Taxable Income</u>	Percent <u>Federal</u> <u>Tax Liability</u>
250	2.09	2.87	13.72
300	2.48	3.41	16.29
350	2.87	3.95	18.86
400	3.27	4.49	21.44

Sales Tax

More than one-third of the state's population lives in communities that collect a sales tax. Almost 100 cities and boroughs have a sales tax, with the distinction for the highest tax rate going to Wrangell at 7% on purchases — even on residential rent. Those 100 communities collected more than \$119 million in 2000, the latest year for which totals are available.

The state has never imposed a sales tax, leaving that revenue source to the cities and boroughs. However, some have suggested a state sales tax as a tool to help close the budget gap. How much money could be raised would depend on which goods and services are exempted from the tax, such as food and medical care. The department estimates:

- If all retail goods and services in the state were taxed, the state would raise about \$100 million a year for each 1% of tax.
- If all food and beverages, medical care and medicines were exempted, the revenue would run about \$70 million a year for each 1% of tax.
- Would the state join the national movement among states toward uniformity in rules to avoid sales tax losses to out-of-state businesses?

It's hard to say how much of the sales tax would be paid by visitors from out of state, although we believe it could be substantial, perhaps 10% or more of total tax revenues. Visitors spend heavily on gifts, food, lodging and tours.

Issues in considering a state sales tax are:

- What items, if any, should be exempted from the tax?
- Loss of local control if the state sets the rules for exemptions.
- Would a state tax, added to an existing municipal tax, hurt the economy in those communities that would have a combined rate of 7%, 8% or 9%?

Permanent Fund Earnings

One more possibility under discussion is to start using some of the earnings from the Alaska Permanent Fund.

The savings account was established in 1976 to save some of the state's oil wealth for when state revenue from North Slope production could no longer keep up with the need for public services. The dividends did not come along until 1982, although many Alaskans probably think of the Permanent Fund as a dividend generator first and as an eventual source of revenue for public services second.

In normal years — of which Fiscal 2001 was not — the Permanent Fund generates more investment earnings than are needed to pay dividends and inflation proof the fund. That excess of between \$175 million and \$300 million a year goes into the Earnings Reserve Account. It goes there by default; it doesn't take legislative action to make a deposit into the Earnings Reserve.

Those surplus earnings could be used to help fill the budget gap.

Legislative Fiscal Policy Caucus

A group of two dozen legislators, mostly House members and almost evenly split between Democrats and Republicans, held a series of town meetings in their communities this past summer and fall to discuss the state's fiscal problem. The caucus then got together in Anchorage on November 30 and December 1 to put together a starting point for legislative discussion during the 2002 session. The caucus members believe they need to take action in 2002 to prevent a fiscal crisis if the CBRF hits empty in the summer of 2004.

That starting point includes an income tax, a sales tax, an increase in alcohol and motor fuel (gasoline) taxes, a \$25 tax on cruise ship passengers, \$100 million a year in additional tax revenue from the oil and gas industry, a reduction in oil and gas royalty deposits to the Permanent Fund from post-1979 leases, and using the annual surplus earnings of the Permanent Fund plus changing the dividend formula to maintain the annual check to Alaskans at \$1,250.

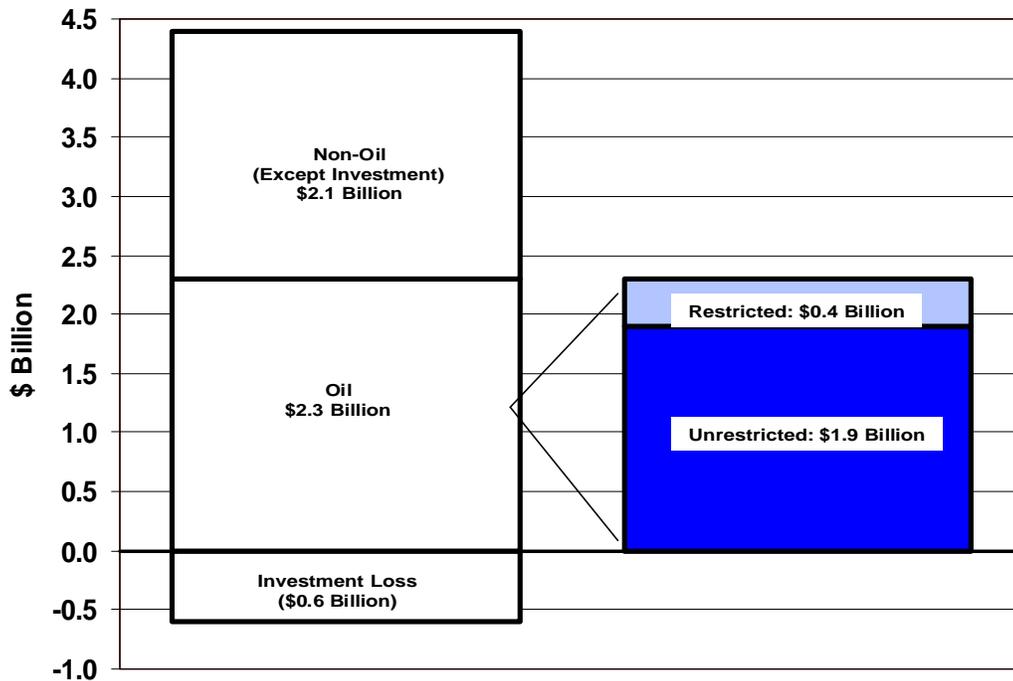
That collection of revenue sources would generate an estimated \$1 billion in new revenues in Fiscal 2004, still short of closing the state's budget gap — which will grow each year as oil revenues decline. The additional revenue, however, would extend the life of the CBRF to the summer of 2008, allowing more time for a complete fiscal plan for the state. Caucus members expressed the hope that new oil discoveries, a natural gas project or other economic development project would add to state revenues before the end of the decade.

V. OIL REVENUE

Table 13. Total Oil Revenue
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	<u>Actual FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Property Taxes	45.1	43.2	41.4
Corporate Income Taxes	338.1	150.0	200.0
Production Taxes	703.1	450.0	377.9
Royalties (including Bonuses)	<u>788.1</u>	<u>547.7</u>	<u>502.6</u>
Subtotal	1,874.4	1,190.9	1,121.9
<u>Restricted</u>			
Royalties to Permanent Fund & School Fund	344.9	226.7	219.4
Settlements to CBRF	49.1	100.0	45.0
NPRA Royalties, Rents and Bonuses	<u>1.7</u>	<u>1.3</u>	<u>1.2</u>
Subtotal	395.7	328.0	265.6

Figure 13. FY 2001 Oil Revenue
 \$2.3 Billion

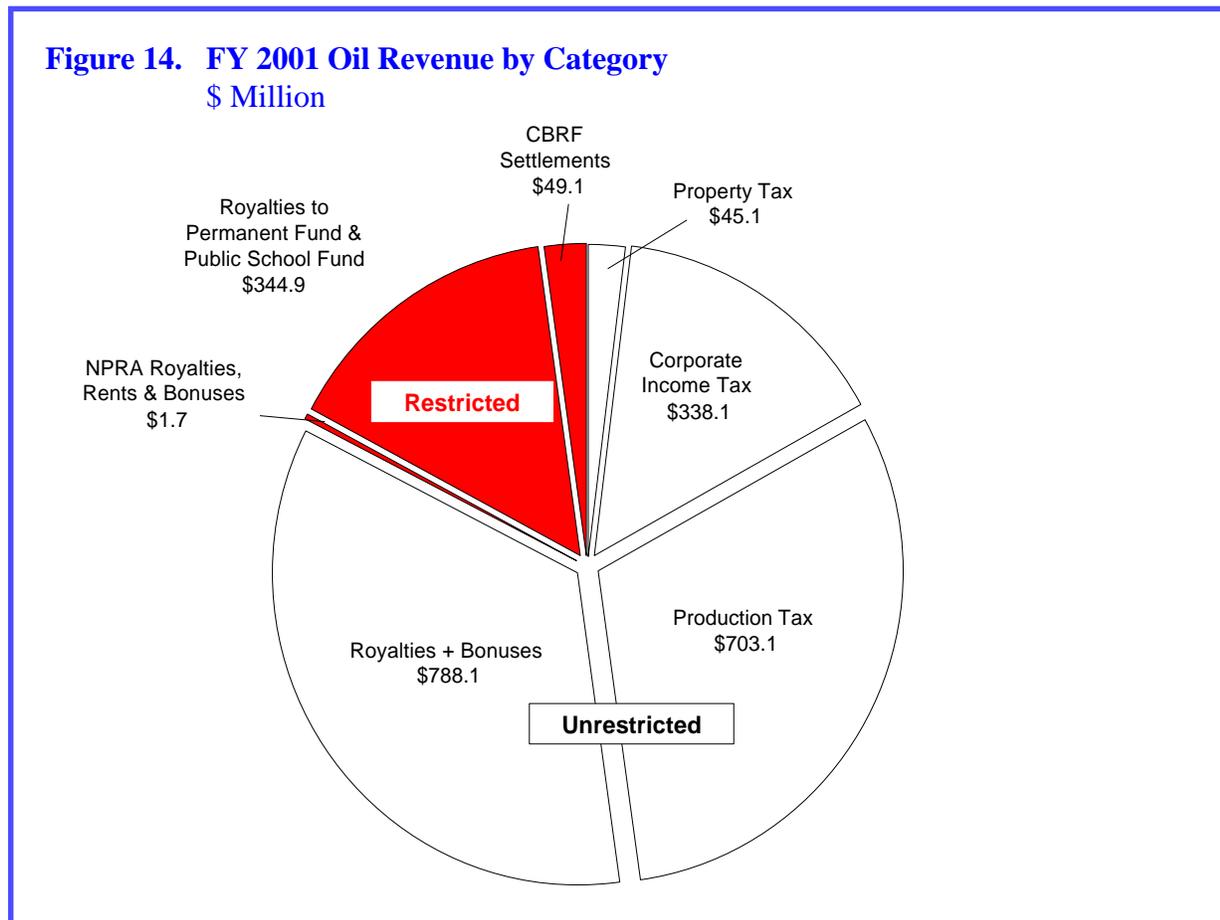


General Discussion

Oil revenue includes revenue from both oil and gas. The state receives its oil revenue from four sources: oil and gas production tax, property tax, royalties and corporate income tax. The bulk of the revenue received from taxes and royalties goes into the General Fund for general purpose spending. Roughly 25% of the royalty revenue goes directly into the principal of the Permanent Fund and 0.5% goes into the Public School Trust Fund. Settlements of tax and royalty disputes between the State of Alaska and the oil-producing companies go into the Constitutional Budget Reserve Fund (CBRF).

The figure below shows the actual proportion of oil revenue from each source. The CBRF funds flow from disputes involving all four revenue types.

As can be seen from the figure, royalties and severance taxes constitute the largest part of oil revenue — both restricted and unrestricted. This section begins with a discussion of these two revenue sources, both of which are driven by price and volume. We then review the price forecasting methodology that underlies our forecast, as well as explore how those market prices are turned into wellhead value. We also review our volume forecast, and close this section with a discussion of oil and gas property taxes, oil and gas corporate income taxes and the restricted portions of oil revenue.



Unrestricted Oil Revenue

Table 14. Unrestricted Oil Revenue Projections
Preliminary Actual FY 2001 and Projected FY 2002-2010
 \$ Million

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Corporate Income Taxes</u>	<u>Production Taxes</u>	<u>Royalties including Bonuses</u>	<u>Total Oil</u>
Actual 2001	45.1	338.1	703.1	788.1	1,874.4
2002	43.2	150.0	450.0	547.7	1,190.9
2003	41.4	200.0	377.9	502.6	1,121.9
2004	39.6	180.0	409.4	564.2	1,193.2
2005	37.8	175.0	347.4	509.5	1,069.7
2006	36.0	170.0	300.7	461.9	968.6
2007	34.2	160.0	267.5	443.9	905.5
2008	32.4	150.0	236.7	428.4	847.4
2009	30.4	140.0	212.4	413.0	759.9
2010	28.4	130.0	191.7	391.5	741.6

Oil and Gas Production Taxes

All oil and gas production in Alaska except the federal and state royalty share is subject to the state's production taxes. The taxes consist of the oil and gas production tax and a hazardous release surcharge levied only on oil. All of these taxes are collected on a monthly basis.

Oil Production Tax.

The tax rate for oil depends on the vintage of the field and the Economic Limit Factor (ELF). The ELF depends on the total daily oil production and the average daily per well oil production from each producing field. (See Page 44.)

The statutory production tax rate on oil is 12.25% of its value at the point of production for the first five years of field production and 15% thereafter. There is a minimum tax of 80 cents per taxable barrel.

To calculate the effective tax rate, multiply the statutory tax rate, even if it is the minimum 80 cents per barrel, times the ELF.

The ELF formula results in lower effective tax rates for smaller, low-production fields and higher tax rates for larger, highly productive fields. There is a unique ELF for every combination of total daily field production and average daily per well production.

The taxable value of oil is determined by deducting allowable marine and pipeline transportation costs from the destination value of the oil at its disposition point which is a third-party sale or delivery to the producer's own refinery. The destination value for most dispositions is tied by regulation to the West Coast spot price of ANS crude oil.

Natural Gas Production Tax.

The statutory production tax rate on natural gas is 10% of its value at the point of production, regardless of the age of the field. There is a minimum tax of 6.4 cents per thousand cubic feet.

To calculate the effective tax rate, multiply the statutory tax rate, even if it is the minimum 6.4 cents per thousand cubic feet, times the ELF. The ELF formula for natural gas production is:

$$\text{ELF} = 1 - (3000/\text{PPW})$$

PPW = average gas production per well per day in the field in thousand cubic feet

If the average daily per well gas production from a field is less than 3,000 cubic feet, the ELF is zero and no gas production taxes are assessed.

The taxable value of natural gas depends on the location of its disposition and its use. For Cook Inlet production, the value for gas sent to Japan as LNG is based on the sales price in Japan less marine, processing and pipeline costs; the value for sales to the Nikiski fertilizer plant is indexed to the current market price of anhydrous ammonia; the value for sales for local use is based on the average sales price for the contracts in effect each month. The small volume of taxable North Slope gas production is valued for tax purposes using the following formula linking it to the value for North Slope crude oil:

$$\text{ANS Gas Taxable Value/mcf} = 0.10 \text{ (average ANS oil per barrel netback value)}$$

Hazardous Release Surcharge.

This tax was enacted following the 1989 grounding of the Exxon Valdez to provide an emergency fund to deal with hazardous substance spills.

The surcharge is comprised of two components: (1) a 3 cents per barrel charge on all oil production, except federal and state royalty barrels, and (2) an additional 2 cents per barrel charge on all oil production except federal and state royalty barrels whenever the balance in the state Oil and Hazardous Substance Release Prevention and Response Fund falls below \$50 million. The balance of the fund was \$50 million or greater for all of FY 2001, so the surcharge was 3 cents per barrel for the entire fiscal year.

Oil Royalties

Almost all Alaska oil and gas production occurs on lands leased by the state for exploration and development of oil and gas resources. As the land owner, the state earns revenue from leasing state-owned land as: (1) upfront bonuses, (2) annual rent charges, and (3) a retained royalty interest in oil and gas production.

Generally, the state issues leases based on a competitive bonus bid system. It has always retained a royalty interest of at least 12.5%. The vast majority of current production is from leases that carry that rate. Some currently producing leases carry rates as high as 20%.

State oil and gas leases provide that the state may take its oil royalty in barrels (in-kind) or as a percentage of the production value (in-value). Currently, the state takes approximately 50,000 barrels per day of Prudhoe Bay production in-kind and sells it to the Williams Alaska Petroleum Company, for its refinery in North Pole. The state's royalty share of Alaska North Slope production amounts to about 125,000 barrels per day.

The royalty oil taken in-value is valued according to a formula using a market basket of spot crude oil prices closely approximating the ANS West Coast spot price of oil less a transportation allowance back to the lease.

Oil Production Revenue Forecasting Methodology and Assumptions

The forecasted value of the state's anticipated oil production is based on projections of the destination market price of oil and the cost of shipping oil by pipeline and tanker to market. The forecast is the product of a formal oil price scenario meeting that includes state economists and financial professionals from the Department of Revenue, Department of Natural Resources, Department of Labor, the Governor's Office of Management and Budget and the University of Alaska.

To develop a production volume forecast, the Department of Revenue uses an engineering consultant in conjunction with assistance from the Alaska Department of Natural Resources and the Alaska Oil and Gas Conservation Commission. This production volume forecast is developed from estimates of oil and gas production by field.

Oil Price Forecast

The short-term oil price forecast (FY 2002-2003) results from an examination of evolving supply and demand fundamentals, as well as oil pricing trends over time. Our long-term forecast (FY 2004 and beyond) is based on the premise that the ANS West Coast price will converge to its historical post-1986 average. The information presented and analyzed by the participants in our fall 2001 oil price scenario meeting, as well as scenario-specific assumptions, is what follows.

Oil Market Fundamentals.

The reference case forecast for oil prices is based on our assessment of future global oil supply and demand. The price scenarios are developed in part by evaluating the relative success we believe the Organization of Petroleum Exporting Countries (OPEC) will have managing the volume of oil it supplies to the market.

It looks as though our forecast last spring of a slowing in the growth rate of world oil demand for 2001 and 2001 was correct. In fact, world oil demand has actually declined in the second half of 2001. Recent estimates put the average global demand growth for all of 2001 at as little as 0.1 million barrels per day, even though demand grew over the first half of the year by 0.9 million barrels per day. Clearly, the economic recession that emerged in the United States has reduced oil demand. Demand in the United States has also dropped as a result of the September 11 terrorist attack with the consequent reduction of air travel and jet fuel demand.

We believe the slowdown in world oil demand growth will bottom out in 2002 and we project world demand for 2002 at 76.5 million barrels per day. Demand will then begin to increase at a rate closer to the historical average of just over 1.5% per year, or about 1.2 million barrels per day per year.

On the supply side, we project that non-OPEC production will grow by 0.8 million barrels per day in 2002 and by 0.6 million barrels per day in 2003 and 2004.

On balance then, it would appear that in calendar 2002 OPEC members will be under significant pressure to cut their production if they want to support an OPEC basket oil price between \$22 and \$28 per barrel. If our fundamental analysis is correct, OPEC production of 26.2 million barrels per day would balance the market in 2002. But if OPEC continues to produce at its current level of 26.8 million barrels per day, a significant inventory build would put downward pressure on oil prices.

We believe OPEC will be forced to address the over-production/low-price issue often over the next year, and as a result we see lower oil prices in FY 2002 and FY 2003.

Table 15. Global Market Assumptions
million barrels per day

	Actual				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Demand</u>					
OECD					
North America	24.2	24.2	24.5	24.7	25.0
Europe	15.1	15.1	15.3	15.4	15.6
Pacific	<u>8.6</u>	<u>8.5</u>	<u>8.5</u>	<u>8.6</u>	<u>8.6</u>
Total OECD	47.9	47.8	48.3	48.7	49.2
Non-OECD					
Former USSR	3.7	3.8	3.8	3.9	4.0
East Europe	0.7	0.7	0.7	0.7	0.8
China	4.9	5.2	5.5	5.9	6.2
Other Asia	7.3	7.3	7.5	7.7	8.0
Latin America	4.8	4.8	4.8	4.8	4.9
Middle East	4.5	4.5	4.6	4.6	4.7
Africa	<u>2.4</u>	<u>2.4</u>	<u>2.4</u>	<u>2.4</u>	<u>2.5</u>
Total Non-OECD	28.5	28.6	29.4	30.2	31.0
Total Demand	76.4	76.5	77.7	78.9	80.2
<u>Supply</u>					
Non-OPEC					
OECD	21.8	21.9	22.0	22.1	22.2
Former USSR	8.5	8.7	8.8	9.0	9.2
Eastern Europe	0.2	0.2	0.2	0.2	0.2
China	3.3	3.3	3.3	3.3	3.3
LDCs ⁽¹⁾	11.1	11.3	11.5	11.8	12.0
Processing Gain	<u>1.8</u>	<u>1.9</u>	<u>2.0</u>	<u>2.1</u>	<u>2.2</u>
Total Non-OPEC	46.5	47.3	47.9	48.5	49.1
OPEC					
OPEC NGLs	<u>3.0</u>	<u>3.0</u>	<u>3.0</u>	<u>3.0</u>	<u>3.1</u>
Total OPEC	29.9	29.2	29.8	30.4	31.1
Total Supply	76.4	76.5	77.7	78.9	80.2

(1) Lesser Developed Countries (LDCs) include Asia (excluding China), Latin America, the Middle East and Africa.

(2) Due to rounding to one decimal, columns may not exactly total.

Current Oil Market Situation.

Alaska North Slope (ANS) oil that sold for \$25.79 per barrel in July was selling for \$8 less in early November. OPEC production cuts had supported a price above \$23 per barrel through September, but the aftermath of September 11 and the economic slowdown created an environment of increasing crude oil inventory and concern by market players about future oil demand. The immediate oil market reaction to the terrorist attacks on New York and Washington, D.C. was muted, as it was unclear whether events would jeopardize oil supplies from the Middle East. Also, there was continued uncertainty about further slowing of the world economy and its effect on oil demand. This concern was evident in October when the price for crude oil similar in quality to ANS fell to \$19 per barrel. In November, prices for ANS fell again averaging just above \$17 per barrel.

Organization of Petroleum Exporting Countries.

OPEC has continued to be very active in adjusting production in an attempt to keep its price between \$22 and \$28 per barrel. The OPEC basket price is the arithmetic average of the current per barrel prices for the following crude oils: (1) Algerian Saharan Blend; (2) Indonesian Minus; (3) Nigerian Bonny Light; (4) Saudi Arabian Light; (5) United Arab Emirates Dubai; (6) Venezuelan Tijuana Light and (7) Mexican Isthmus. This basket was first developed in 1986 for the purpose of monitoring world crude oil prices. Coincidentally, the OPEC basket price has over time tracked the ANS West Coast spot price very closely.

In 2000, OPEC adopted a policy to manage the amount of crude oil it supplied to the market to keep its basket price within the \$22 to \$28 per barrel band. Between April 2000 and August 2001, OPEC adjusted its production quotas six times; in the last three adjustments OPEC reduced its production quotas in total by 3.5 million barrels per day.

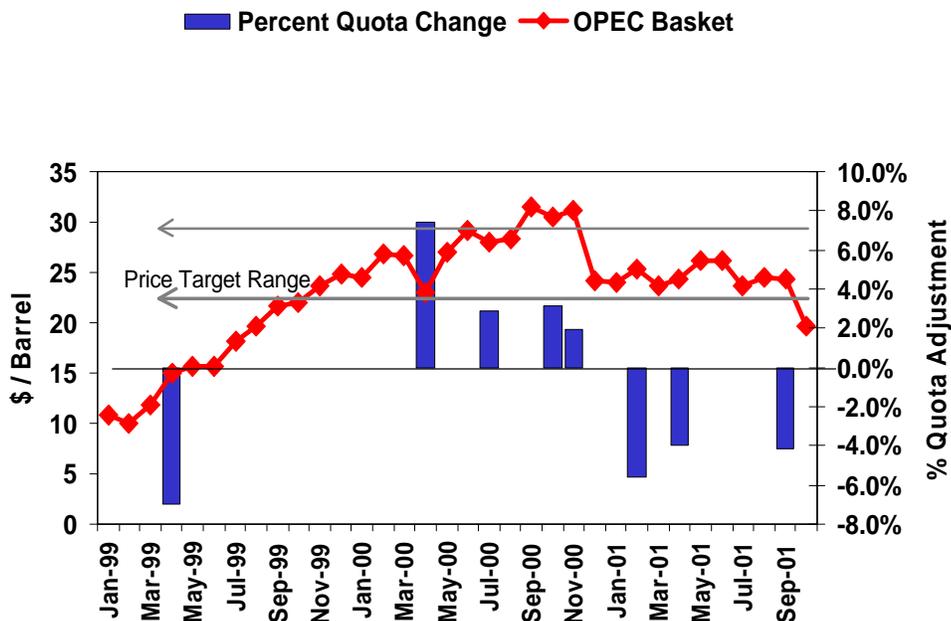
At current estimates of OPEC production, with some cheating on quotas, they have actually reduced production by 2.7 million barrels per day. OPEC members have indicated that they believe the correct policy to bring oil prices back into the acceptable range would be for members to stop cheating and to produce at quota. OPEC has also been engaged in high-profile negotiations with key non-OPEC producers to encourage cooperation in reducing production.

Table 16. OPEC Production
million barrels per day

	<u>October 2001</u>	<u>September 2001 Quota</u>	<u>over/(under) September 2001 Quota</u>
Algeria	0.800	0.741	0.059
Indonesia	1.200	1.203	(0.003)
Iran	3.450	3.406	0.044
Kuwait	1.960	1.861	0.099
Libya	1.320	1.242	0.078
Nigeria	2.210	1.911	0.299
Qatar	0.650	0.601	0.049
Saudi Arabia	7.620	7.541	0.079
UAE	2.040	2.025	0.015
Venezuela	<u>2.690</u>	<u>2.670</u>	<u>0.020</u>
Subtotal (less Iraq)	23.940	23.201	0.739
Iraq	2.800	2.540	
Total OPEC	26.740	25.741	0.739

Source: Middle East Economic Review, November 19, 2001

Figure 15. OPEC-10 Quota Adjustments to Oil Price, 1999-2001

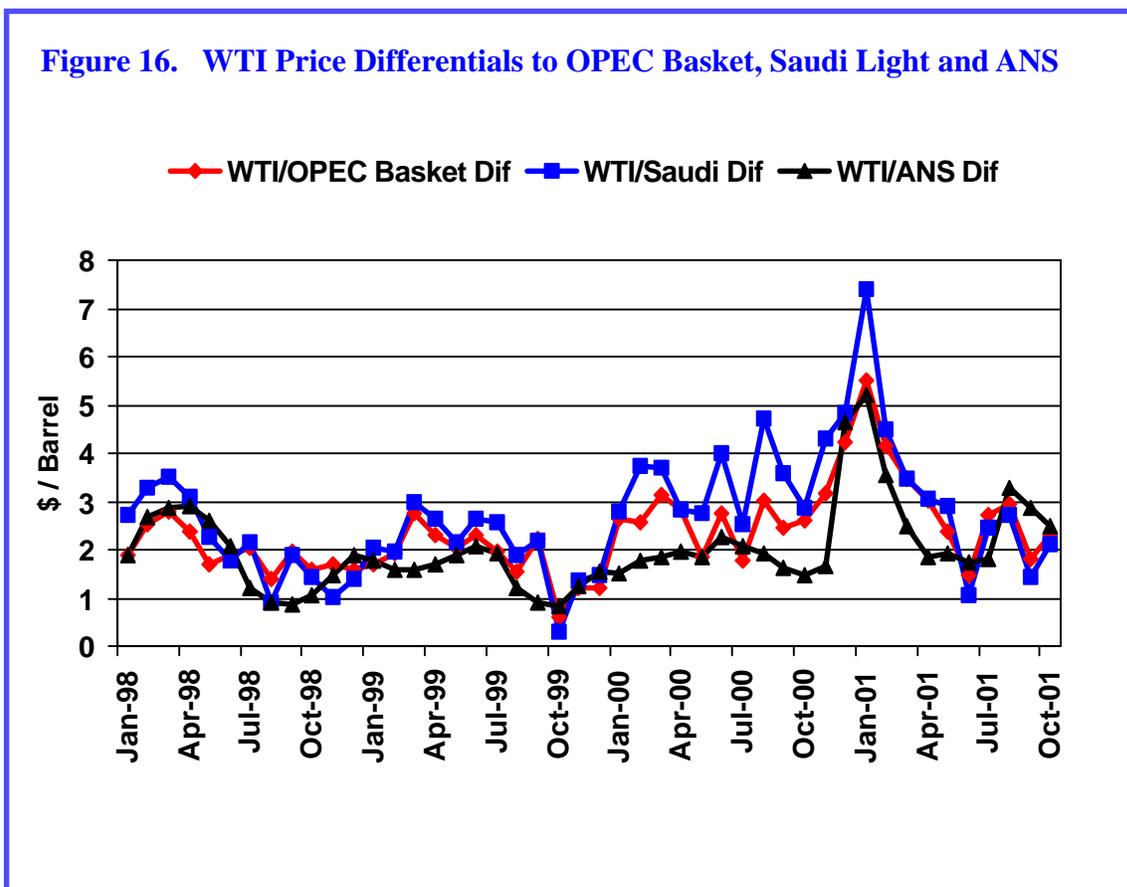


Alaska North Slope.

As mentioned above, ANS prices generally closely track the price for the OPEC basket of internationally traded crude oils. ANS sells in direct competition with other waterborne crude oils sold at U.S. West Coast destinations. This includes a growing amount of crude oil from OPEC — primarily Saudi Arabia and Iraq. ANS has a locational advantage over OPEC suppliers since it is the nearest waterborne source of crude oil for West Coast refiners. However, due to the seasonality of the West Coast market, ANS may trade at a premium or a discount relative to these competitive crude oils depending on the time of year and OPEC production policy.

The fall and winter are periods of seasonally lower oil demand on the West Coast, primarily a summer driving market. It is also the period of seasonally higher production on Alaska's North Slope because colder weather increases gas handling efficiencies in the oil fields. In prior years, some of the higher production in the winter was exported to high heating demand Far East markets, thus stabilizing to a certain extent the price of ANS relative to other world crude oils. Since exports ceased in April 2000, we have seen the differential for ANS relative to the U.S. benchmark West Texas Intermediate (WTI) exhibit a more volatile seasonal pattern, tightening in the summer months and widening in the fall and winter months. The November ANS/WTI differential was about \$2.50 per barrel.

Figure 16. WTI Price Differentials to OPEC Basket, Saudi Light and ANS



Other Transportation and Production Costs

Transportation Costs.

A recent review of proposed shipping requirements and current costs, together with our ANS production forecast, have led us to increase our forecast of future marine transportation costs. The forced replacement, by the Federal Oil Pollution Act of 1990, of vessels without double hulls with new, more expensive vessels will increase costs. Declining production, on the other hand, will reduce shipping costs because the destination markets most distant and most costly from Valdez will be relinquished first as production declines. The net of these will, we believe, result in a slight increase over our previous projection of marine transportation costs.

Trans-Alaska Pipeline System (TAPS) Tariffs.

The TAPS tariff is determined according to the TAPS Settlement Methodology, a rate-making method approved by the Federal Energy Regulatory Commission that allows the TAPS owners to recover their costs, including an allowance for profit. Under the agreement, future tariffs will be determined by operating cost trends, the production rate and inflation.

TAPS tariffs are filed on a calendar year basis, with new tariffs taking effect January 1 each year. The expected tariff filing for calendar year 2002 is \$3.44 per barrel. Table 17 contains projected tariffs for FY 2002-2010.

Feeder Pipeline Costs.

Certain additional transportation costs are also incurred to move the various crude oils that comprise ANS from North Slope production fields to Pump Station No. 1 of the Trans-Alaska Pipeline System. These include both feeder pipeline charges and other cost adjustments to account for the different qualities of oil entering the North Slope pipelines. Table 17 also summarizes these projected costs.

Wellhead Price.

The combination of ANS wellhead value and production volume by field form the basis for both state production taxes and royalties. The wellhead value by field is calculated by subtracting the relevant marine transportation and pipeline tariff costs (as well as adjustments for North Slope feeder pipelines and pipeline quality bank) from the appropriate destination value. Table 17 reflects this calculation for FY2001-2010.

Table 17. Fall 2001 Forecast Assumptions
\$ per barrel

	Fiscal Year	ANS West Coast Price	ANS Marine Transportation	TAPS Tariff	Quality Bank and Feeder Pipeline	ANS Wellhead⁽¹⁾
Preliminary						
Actual	2001	27.85	1.69	2.97	0.36	22.83
	2002	20.55	1.83	3.49	0.18	15.27
	2003	18.81	1.75	3.34	0.19	13.54
	2004	19.72	1.75	3.21	0.20	14.55
	2005	18.61	1.75	3.26	0.25	13.36
	2006	17.50	1.75	3.32	0.27	12.16
	2007	17.50	1.75	3.38	0.30	12.07
	2008	17.50	1.85	3.43	0.35	11.87
	2009	17.50	1.95	3.45	0.39	11.70
	2010	17.50	2.00	3.55	0.40	11.55

(1) The wellhead value in FY 2002 is based on both actual and projected values and includes a delivery-timing adjustment so that actual reported sales prices match spot price in the month of production.

Oil Production

Additional exploration and development activity over the last three years has begun to bear fruit. We expect that new discoveries and developments will keep production over 1.0 million barrels per day through FY 2010 after which we project a decline of 5.5% per year.

Production Highlights.

In our forecast update we reduced all field production projections to reflect the continuing trend of unplanned disruptions in both field operations and the Trans-Alaska Pipeline System (TAPS). This as well as a slowed pace of development at West Sak and Kuparuk modestly reduce our forecast from the levels projected last spring for FY 2002 and 2003.

However, we have increased our forecast for FY 2004 as a result of the following developments:

- New reserves have been added to the Kuparuk forecast as a result of the Palm discovery.
- Planned enhanced oil recovery (miscible injection) at the Milne Pt. and Schrader Bluff fields.
- Start up of the second drill site at Alpine in combination with facility expansion and debottlenecking. So far reservoir performance continues to exceed expectation at Alpine.
- The announced discovery of oil in the NPRA has lead us for the first time to forecast production from this area. We have heavily risked this production and are currently assuming production beginning in FY 2007, peaking at around 75,000 barrels per day by FY 2010.

- Finally, recent developments in the Cook Inlet at the Redoubt Shoals and the successful drilling at the McArthur River Field have lead us to significantly increase our Cook Inlet production forecast. With full development in 2004, the Osprey platform is projected to produce 18,500 barrels per day bringing Cook Inlet oil production up over 40,000 barrels per day for the first time since 1996.

Table 18. Alaska Oil and NGL Production
million barrels per day

	Preliminary Actual FY 2001	FY 2002	FY 2003
Prudhoe Bay	0.5400	0.4937	0.4614
Midnight Sun	0.0033	0.0055	0.0075
Polaris	0.0011	0.0024	0.0103
PBU-Satellites	0.0000	0.0000	0.0029
Aurora	0.0028	0.0056	0.0140
Borealis	0.0000	0.0054	0.0155
Kuparuk	0.1960	0.1752	0.1700
West Sak	0.0050	0.0053	0.0093
Tabasco	0.0045	0.0039	0.0051
Tarn	0.0215	0.0222	0.0200
Meltwater	0.0000	0.0043	0.0250
Milne Point	0.0441	0.0404	0.0400
Schrader Bluff	0.0076	0.0149	0.0241
Sag River	0.0002	0.0005	0.0004
Endicott ⁽¹⁾	0.0336	0.0291	0.0285
Eider	0.0013	0.0021	0.0018
Badami	0.0022	0.0017	0.0019
Lisburne	0.0100	0.0098	0.0101
Point McIntyre	0.0598	0.0458	0.0423
Niakuk	0.0187	0.0213	0.0194
West Beach	0.0009	0.0000	0.0009
N Prudhoe Bay State	0.0000	0.0000	0.0005
Alpine	0.0379	0.0950	0.0950
Northstar	<u>0.0000</u>	<u>0.0281</u>	<u>0.0640</u>
Total	0.9906	1.0121	1.0699
Cook Inlet	0.0294	0.0363	0.0373
Total Alaska	1.0200	1.0484	1.1072

(1) Includes Sag Delta.

Petroleum Property Tax

An annual tax is levied each year on the full and true value of property taxable under AS 43.56. The tax on oil and gas property is the only statewide property tax. The valuation procedure for three distinct classes of property — exploration, production and pipeline transportation — is described below.

Exploration Property.

Value is based on the estimated price that the property would bring in an open market under prevailing market conditions in a sale between a willing seller and a willing buyer, both conversant with the property and with prevailing general price levels.

The raw data for market value is gathered by the state appraiser by reviewing the details of equipment sales, attending auctions and reviewing trade journals. This data is then applied to the taxable property, taking into account age, capacity, physical and functional obsolescence.

Production Property.

Value is determined on the basis of replacement cost new less depreciation, based on the economic life of the proven reserves.

In the case of an offshore oil or gas platform or onshore facility, the number of years of useful life is determined by estimating when the facility would reach its economic limit, not on the basis of the projected physical life of the property. The time period until the estimated operating revenue would equal operating expenses plus the current age of the facility equals the total life. The depreciation factor for the facility equals the years of remaining life *divided* by the total life.

Pipeline Transportation Property.

The full and true value of taxable pipeline property is determined with due regard to the economic value of the property based on the estimated life of the proven reserves of gas or unrefined oil that will be transported by the pipeline. We rely upon several standard appraisal techniques to value Alaska pipelines. We primarily rely on the income method under which the value is the present worth of all future income streams of the pipeline. Over 95% of pipeline transportation property is accounted for by the Trans-Alaska Pipeline from Prudhoe Bay to Valdez.

The table on the next page illustrates the property tax distribution between local communities and the state for FY 2001. The property value is assessed by the state. A local tax is levied on the state's assessed value for oil and gas property within a city or borough, and is subject to the local property tax limitations established in AS 43.29.080 and .100. State law limits owners to paying 20 mills on their property — local governments get their share first, and the state receives whatever is left up to 20 mills.

Figure 17. FY 2001 Assessments by Property Type

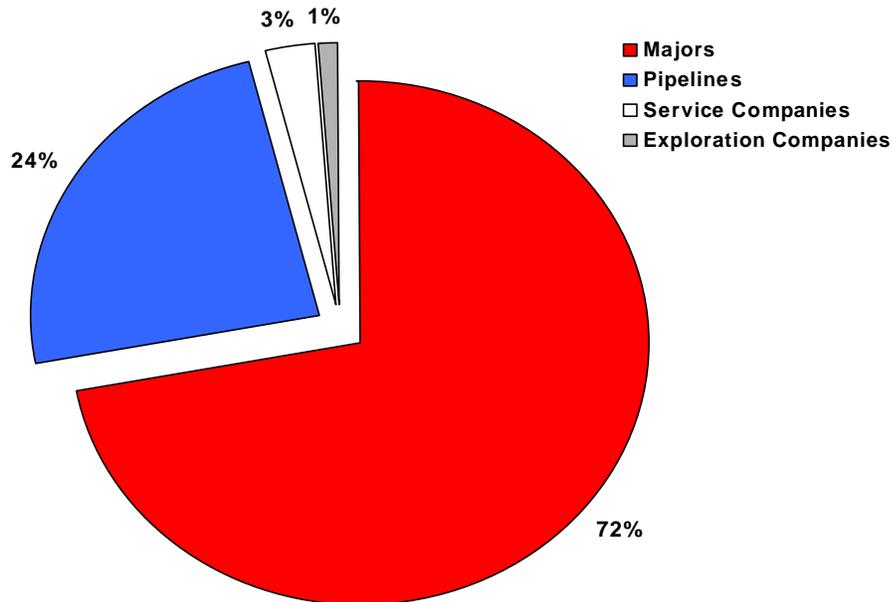


Table 19. FY 2001, Distribution of the Petroleum Property Tax
\$ Million

<u>Municipalities</u>	<u>Gross Tax</u>	<u>Local Share</u>	<u>State Share</u>
North Slope	204.362	193.020	11.342
Unorganized	27.341	0.000	27.341
Valdez	13.076	13.076	0.000
Kenai	12.023	7.169	4.854
Fairbanks	5.552	4.426	1.126
Anchorage	2.696	2.427	0.269
Matanuska-Susitna	0.060	0.040	0.020
Cordova	0.055	0.037	0.018
Whittier	0.009	0.002	0.007
Total	265.174	220.197	44.977

Petroleum Corporate Income Tax

A petroleum corporation's Alaska corporate income tax revenue depends on the relative size of its Alaska-vs.-worldwide activities and the corporation's total worldwide net earnings. The corporation's Alaska taxable income is derived by apportioning the corporation's worldwide taxable income to Alaska using the average of three factors: the proportion of the corporation's (1) tariffs and sales, (2) oil and gas production, and (3) oil and gas property in Alaska.

We begin our forecast by estimating the statistical relationship between historical collections of tax and the value of Alaska oil production. We then adjust the forecast for carryforwards and refunds. In FY 2002, the carryforward and refund adjustment was a record \$71 million. This adjustment is a result of oil companies overpaying their income taxes in FY 2001. Without this adjustment, the forecast for FY 2002 would have been approximately \$210 million. The lower non-adjusted forecast is a result of lower oil prices. In FY 2003 we project that revenue will continue to fall with oil prices.

Restricted Oil Revenue

The table below reflects restricted oil and gas revenue.

A minimum of 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state must be deposited into the Alaska Permanent Fund. For state oil and gas leases issued after 1980, state statute requires a 50% contribution to the fund. In addition, a state statute also requires a contribution of 0.5% of all royalties and bonuses to the Public School Fund Trust. As explained earlier, settlements with or judgments against the oil industry involving tax and royalty disputes must be deposited in the CBRF.

The state is entitled to 50% of all bonuses, rents and royalties from oil development activity in the federal NPRA. All such revenue flows into the NPRA Special Revenue Fund. All of the revenue in the fund each year is available for appropriation in the form of grants to municipalities that demonstrate present or future impact from NPRA oil development. Of the revenue not appropriated to the municipalities, 25% goes to the Permanent Fund, 0.5% goes to the Public School Trust Fund and the rest may be appropriated to the Power Cost Equalization and Rural Electric Capitalization Fund. Any remaining revenue after these appropriations lapses into the General Fund.

Table 20. Restricted Oil Revenue
\$ Million

	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Restricted Oil Revenue			
Royalties to Permanent Fund & Public School Fund			
Royalties to the Permanent Fund	339.3	222.8	215.8
Royalties to the Public School Fund	<u>5.6</u>	<u>3.9</u>	<u>3.6</u>
Subtotal	344.9	226.7	219.4
Settlements to the CBRF	49.1	100.0	45.0
NPRA Royalties, Rents and Bonuses	<u>1.7</u>	<u>1.3</u>	<u>1.2</u>
Total	395.7	328.0	265.6

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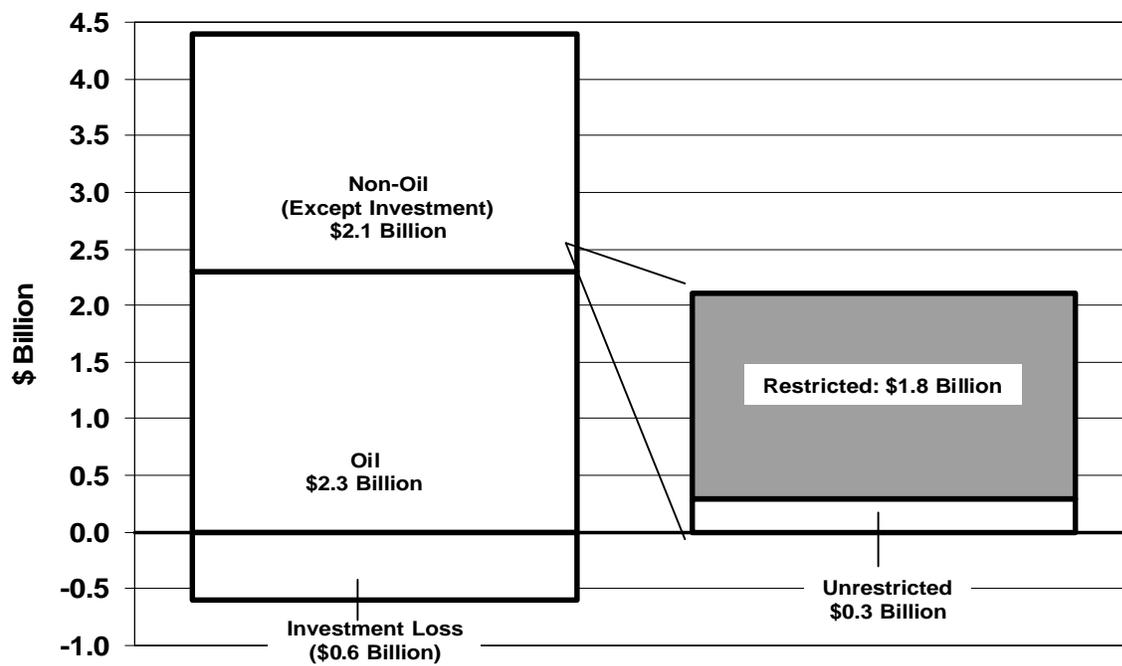
VI. NON-OIL REVENUE (EXCEPT INVESTMENTS)

Income from sources other than oil and investments includes non-oil taxes, user fees, licenses and all federal funding directed to the state (e.g., money for social services, transportation and education). Many of these revenue sources are divided between unrestricted and restricted revenues; the amounts of each are reflected in the tables. Restricted revenue includes money deposited in funds other than the General Fund and statutorily designated program receipts. For purposes of this forecast, restricted revenue also includes receipts that the legislature consistently appropriates for a particular purpose or program, such as sharing of fish tax revenue with municipalities.

Table 21. Non-Oil Revenue (Except Investments)
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary Actual FY 2001	FY 2002	FY 2003
Unrestricted			
Federal Receipts	0.3	1.0	1.0
Taxes	184.2	168.3	171.0
Charges for Services	26.9	22.0	22.0
Fines and Forfeitures	33.6	12.0	12.0
Licenses and Permits	37.3	36.5	37.0
Rents and Royalties	10.9	10.0	10.0
Other	<u>35.0</u>	<u>52.0</u>	<u>38.0</u>
Subtotal	327.9	300.8	290.0
Total Unrestricted	328.2	301.8	291.0
Restricted			
Federal Receipts	1,322.6	2,081.5	2,081.5
Taxes	62.0	57.6	56.4
Charges for Services	210.4	228.3	235.3
Fines and Forfeitures	0.0	25.8	26.3
Licenses and Permits	41.0	40.7	41.0
Rents and Royalties	0.0	0.0	0.0
Other	<u>124.4</u>	<u>125.1</u>	<u>126.6</u>
Subtotal	437.8	477.5	485.6
Total Restricted	1,760.4	2,559.0	2,567.1
Total	2,088.6	2,860.8	2,858.1

Figure 18. FY 2001 Non-Oil Revenue (Except Investments)
\$2.1 Billion

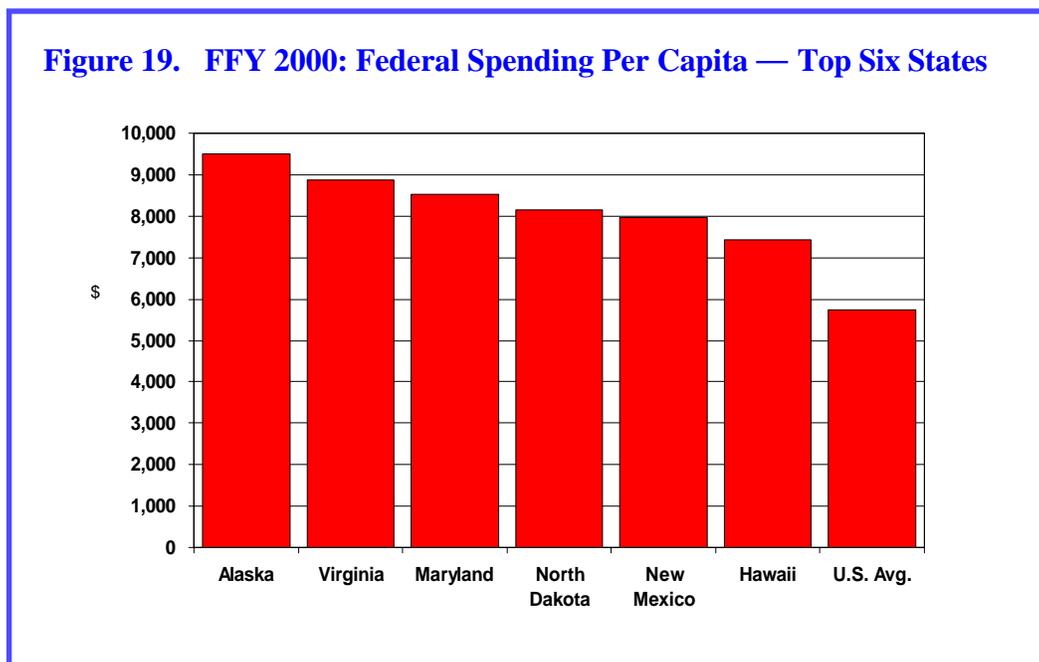


Federal Revenue

Spending by the federal government plays a significant role in Alaska's economy, as well as figuring prominently in the state revenue picture. More than a quarter of Alaska's Gross State Product (GSP) was federal spending in Federal Fiscal Year (FFY) 1999 (October 1, 1998 to September 30, 1999, the last year for which GSP figures are available).⁽¹⁾

Total Federal Spending

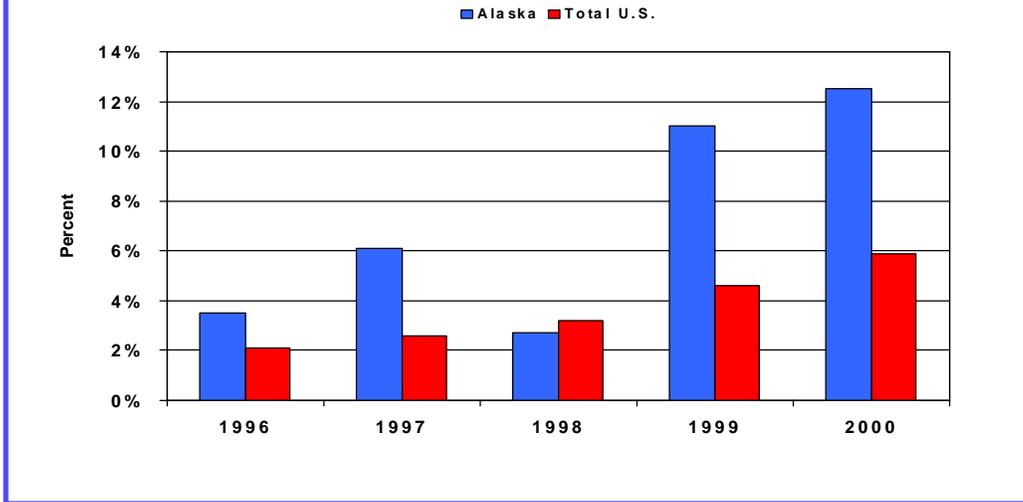
In FFY2000, the federal government spent just under \$6 billion in Alaska.⁽²⁾ Per capita, that's more money than any other state. It is also an increase over the year before, part of a five-year trend of climbing federal spending. In fact, the federal government has increased its spending in Alaska at a faster rate than for the nation as a whole.



(1) This data can be found at <http://www.bea.doc.gov/bea/regional/gsp>.

(2) This and other federal fund figures in this section not otherwise attributed come from Consolidated Federal Funds Report, U.S. Census Bureau, U.S. Department of Commerce, Washington, D.C. 20233.

Figure 20. Annual Federal Spending Increase, Alaska and Total U.S.



About 40% of federal spending in Alaska is new money coming into the state — we received \$1.68 for every \$1 we paid in taxes. Because the new money comes from outside the state it contributes to an overall increase in the economy. ⁽³⁾

Among federal agencies, the Department of Defense spends the most in Alaska, followed by Health and Human Services. Together, they account for nearly half of all federal spending.

Not surprisingly, a large portion of federal dollars flows into Alaska through salaries of federal employees. However, purchases of goods and services from Alaska businesses is also significant, as is direct payments to individuals for such things as retirement and disability. More than a third of all federal spending is in the form of grants, mostly to state and local governments and nonprofit organizations.

Table 22. Total Federal Spending, FFY 2000
\$ Million

	By Agency		By Category	
	\$Million	Percent	\$Million	Percent
Defense	1,755	29	Grants	2,174 37
Health & Human Services	1,065	18	Salaries & Wages	1,349 23
Social Security	501	8	Procurement	1,108 19
Other Agencies	<u>2,632</u>	<u>44</u>	Retirement & Disability	845 14
			Other Direct Payments	<u>477</u> <u>8</u>
Total	5,953	100	5,953	100

(3) This data can be found at: <http://www.taxfoundation.ORG/pr-fedtaxspendingratio.html>.

Federal Funding in the State Budget

In FFY2000, about \$1.2 billion in federal spending flowed through the state treasury, with another \$1.1 billion going to local governments. Of the state's total, 45% was spent on capital projects. A detail of federal dollars in the FY2002 budget that flow to the state government can be found at "Federal Funding in Alaska" at <http://www.gov.state.ak.us/omb/akomb.htm>.

Figure 21. Federal Spending Through the State Budget

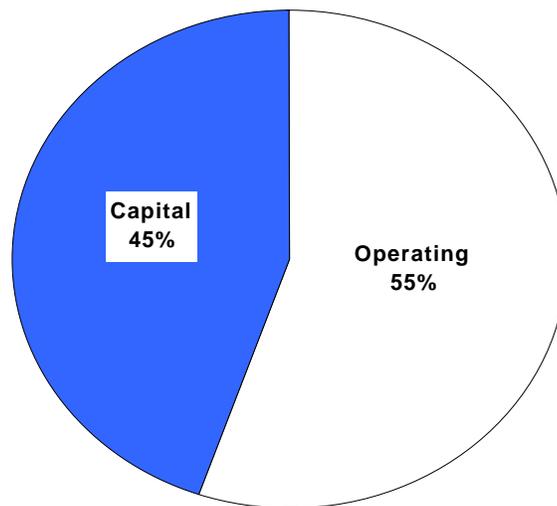
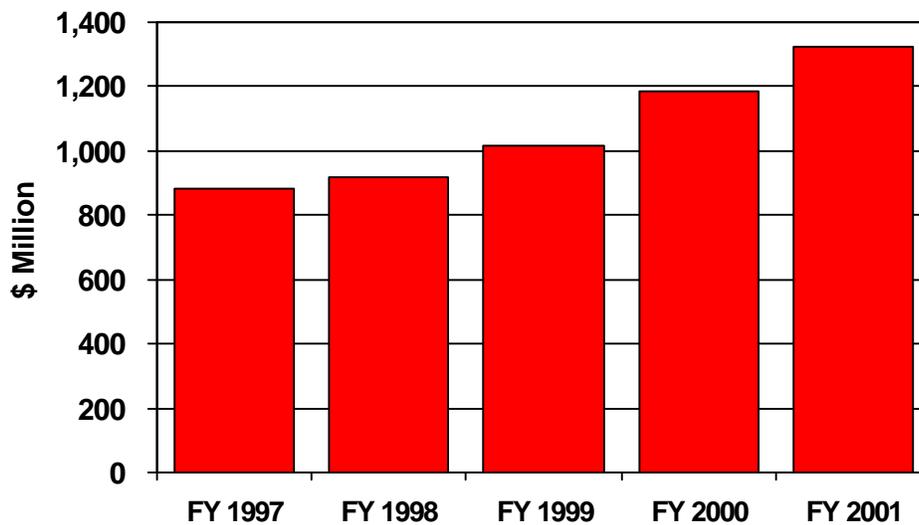


Figure 22. Federal Dollars Received by the State



* state fiscal year

It is important to note that the state routinely budgets for more federal money than it actually receives. The legislature authorizes agencies to receive and spend the maximum that federally funded programs might need. Actual amounts normally turn out to be less. Also, some of the federal money appropriated for capital projects, such as roads, is received and spent as construction proceeds in later years.

Potential changes to federal law, differing federal and state fiscal years, and changing numbers of eligible Alaskans in certain programs make forecasting federal revenue difficult. For example, we can be pretty certain that the rising cost of medical care will drive up Medicaid costs, and that under current law federal revenues to the state will increase as a result. However, the number of Alaskans using the program could rise or fall as economic conditions change, and Congress could decide to alter the amount that states are reimbursed for Medicaid expenses. Similarly, we can fairly predict the rate at which we spend, and thus receive, federal transportation dollars, but we cannot predict how much money our congressional delegation will earmark in federal appropriation bills for additional specific projects. The estimates of federal revenue we present for FY 2002 and FY 2003 are, therefore, necessarily rough.

For state Fiscal Year 2003, we anticipate the state will budget \$2.04 billion. Most federal funding requires state matching money. We estimate that the match in FY 2003 will be \$304 million. These are minimum figures; the final budgeted amounts could be higher.

Almost all federal funds, whether spent in the operating or capital budget, are restricted to specific uses. The largest categories of federal funding, using the current year's budgeted amounts, are highways (\$499 million), Medicaid (\$411 million), airports (\$156 million) and education (\$161 million).

Table 23. Federal Revenue
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary Actual Spending FY 2001	Projected Appropriations	
		FY 2002	FY 2003
<u>Unrestricted</u>			
Intergovernmental Revenue	0.3	1.0	1.0
Total Unrestricted	0.3	1.0	1.0
<u>Restricted</u>			
	1,322.6	2,081.5	2,081.5
Grand Total	1,322.9	2,082.5	2,082.5

(1) The FY 2002 forecast is the amount authorized in the operating and capital budget (OMB).

Non-Oil Tax

Alcohol Beverage Tax

Alcoholic beverage taxes are collected primarily from wholesalers and distributors for alcoholic beverages sold in Alaska. The current rates per gallon are \$5.60 for liquor, \$0.85 for wine and \$0.35 for beer — about 3 to 4 cents per drink. All revenue from the alcoholic beverages tax is deposited in the General Fund. Although tax revenues were down in FY 2001, that relates to a one-time refund to a taxpayer, and future tax revenues should be relatively flat.

Corporate Income Tax

Corporations that do business in Alaska pay the Corporate Net Income Tax unless they are organized under a special IRS rule (Subchapter S) that generally applies to small, closely held companies. A corporation that does business both inside and outside Alaska must apportion its income to determine how much income it earned here. Corporations other than oil and gas corporations apportion their income to Alaska by using a three-factor formula based on sales, property and payroll. Alaska taxable income is determined by applying the apportionment factor to the corporation's modified federal taxable income. Corporate tax rates are graduated from 1% to 9.4% in \$10,000 increments of Alaska taxable income. The maximum rate of 9.4% applies to income over \$90,000. Corporate income tax revenue will decline in FY 2002 because of lower oil prices and the nation's economic downturn. Although the nationwide economy will likely rebound in FY 2003, we do not expect tax receipts to return to FY 2001 levels because corporations in the oil and gas support business will experience lower revenue as the price of oil declines.

Electric Cooperative and Telephone Cooperative Taxes

The electric cooperative and telephone cooperative taxes dates back to 1959, when the first Alaska legislature enacted the Electric and Telephone Cooperative Act to promote cooperatives around the state. The electric cooperative tax is based on kilowatt-hours furnished by qualified electric cooperatives recognized under AS 10; the telephone cooperative tax is levied on gross revenue of qualified telephone cooperatives under AS 10. All revenue from the co-op taxes is deposited in the General Fund, but revenue from co-ops located in municipalities is treated as restricted revenue in this forecast because it is shared 100% with the municipalities.

Estate Tax

This tax is levied on the transfer of an estate upon death. The Alaska estate tax is tied to the federal tax: The amount of the state tax equals the maximum state credit allowed on the estate's federal return. As a result of changes to the federal estate tax, the Alaska estate tax will be phased out by FY 2006. All revenue derived from estate taxes is deposited in the General Fund.

Fisheries Business Tax

The fisheries business tax is the oldest tax in Alaska, dating from 1913. The tax is levied on businesses that process or export fisheries resources from Alaska. Although the tax usually is levied on the act of processing, the tax is often referred to as a "raw fish tax" because it is generally based on the value paid to commercial fishers for the raw fishery resource. Tax rates vary from 1% to 5%, depending on whether a fishery resource is classified as "established" or "developing," and whether it was processed by an on-shore or floating processor. All revenue from the fisheries business tax is deposited in the General Fund, but not all of it is considered unrestricted for the purposes of this forecast. Each year, the legislature appropriates half the revenue from the tax either to the municipality in which the resource was processed, or, when the resource was processed outside a municipality, to the Department of Community and Economic Development to share with nearby municipalities. Given that this sharing formula is in statute, and that the legislature consistently follows the statutory formula, this forecast considers the shared revenues to be restricted. Fisheries business tax revenues declined in FY 2002 as a result of lower sockeye, chum and shellfish values. If sockeye returns in Bristol Bay are, as forecasted, lower next summer, the tax revenue will decline again in FY 2003.

Fishery Resource Landing Tax

The fishery resource landing tax was enacted in 1993. The tax is levied on processed fishery resources first landed in Alaska, and is based on the unprocessed statewide average value of the resource. Fishery resource landing taxes are collected primarily from factory trawlers and floating processors which process fishery resources outside of the state's 3-mile limit and bring their products into Alaska for transshipment. Fishery resource landing tax rates vary from 1% to 3%, based on whether the resource is classified as "established" or "developing." All revenue derived from the fishery resource landing tax is deposited in the General Fund, but, by statute, 50% is available for sharing with municipalities on the same lines as the fisheries business tax. The revenue to be shared is considered restricted.

Insurance Premium Tax

Insurance companies in Alaska do not pay corporate income tax or sales or other excise taxes. Instead, they pay an insurance premium tax. Receipts from this tax are deposited in the unrestricted General Fund.

Mining License Tax

This tax is on the net income of mining property in the state, ranging from 0% to 7%, less exploration and other credits. Except for sand and gravel operations, new mining operations are exempt from the mining license tax for a period of 3½ years after production begins. The production value of minerals increased from 1999 levels by 5% in 2000 to \$1.08 billion, in part due to the increased value of zinc. In 2000, zinc accounted for 70% of the production value for all metals mined in Alaska. Zinc prices, however, have fallen in the first half of 2001. The five-year average for state mining license tax revenues is \$1.5 million. Mining license tax revenue should fall to close to the five-year average in FY 2002 and improve in FY 2003 with an increased demand for zinc.

Motor Fuel Tax

The motor fuel tax dates back to 1945 when a tax of 1¢ per gallon was imposed on all motor fuel. The motor fuel tax is levied on motor fuel sold, transferred or used within Alaska. Motor fuel taxes are collected primarily from wholesalers and distributors licensed as qualified dealers. Current per gallon rates are 8¢ for highway use, 5¢ for marine use, 4.7¢ for aviation gasoline, 3.2¢ for jet fuel, and a variable rate of 8¢/2¢, depending on the season, for gasohol. Various uses of fuel are exempt from tax, including fuel used for heating or in flights to or from a foreign country. All revenue derived from motor fuel taxes is deposited in the General Fund, but 60% of taxes attributable to aviation fuel sales at municipal airports are shared with the respective municipalities, and hence considered restricted for purposes of this forecast. We project that next year's motor fuel tax revenue will remain flat.

Seafood Assessments and Taxes

The Department of Revenue administers several different programs that raise money through seafood assessments. The money raised is then set aside for the legislature to appropriate for the benefit of the seafood industry — either in marketing or in management/development of the industry. The four programs are the salmon marketing tax, seafood marketing assessment, salmon enhancement tax and dive fishery management assessment. The rates for many of these assessments are actually determined by a vote of the appropriate association within the seafood industry. Although all revenue received under these assessments is deposited in the General Fund, for purposes of this forecast it is treated as restricted revenue.

Tobacco Tax

The tobacco tax dates back to 1949, when a tax of 3 cents per pack of cigarettes and 2 cents per ounce of tobacco was enacted. The tobacco tax is levied on cigarettes and tobacco products sold, imported or transferred into Alaska. Tobacco taxes are collected primarily from licensed wholesalers and distributors. The tax rate on cigarettes is \$1 per pack of 20 cigarettes. The tax rate on other tobacco products — such as cigars and chewing tobacco — is 75% of the wholesale price. Seventy-six percent of cigarette tax revenue is deposited in the School Fund; 24% in the General Fund. All tobacco products tax revenue is deposited in the General Fund; all cigarette and tobacco products license fees are deposited in the School Fund. Revenue deposited in the School Fund is dedicated to the rehabilitation, construction, repair and insurance costs of state school facilities. The decrease in cigarette tax revenue is due to a decline in taxable cigarette sales, and, in FY 2002, a one-time taxpayer refund. The small increase in other tobacco products revenue in FY 2002 is due to the increase in the wholesale value of other tobacco products.

Table 24. Non-Oil Tax
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary Actual <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Sales and Use Tax			
Alcoholic Beverage	12.0	12.3	12.3
Cigarette	10.9	9.5	9.3
Other Tobacco Product	5.4	5.5	5.5
Insurance Premium	32.2	33.1	34.5
Electric and Telephone Cooperative	0.2	0.2	0.2
Motor Fuel	<u>37.7</u>	<u>37.7</u>	<u>37.7</u>
Subtotal	98.4	98.3	99.5
Corporation Income Tax	59.5	48.0	50.0
Fish Tax			
Fisheries Business	15.4	12.5	12.3
Fishery Resource Landing	<u>4.1</u>	<u>2.8</u>	<u>3.0</u>
Subtotal	19.5	15.3	15.3
Other			
Mining	1.7	1.5	1.7
Estate	2.7	2.8	2.1
Charitable Gaming	<u>2.4</u>	<u>2.4</u>	<u>2.4</u>
Subtotal	6.8	6.7	6.2
Total Unrestricted	184.2	168.3	171.0
<u>Restricted</u>			
Sales and Use Tax			
Electric and Telephone Cooperative	3.2	3.2	3.2
Cigarette	30.7	29.3	28.7
Motor Fuel - Aviation	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Subtotal	34.1	32.7	32.1
Fish Tax			
Fisheries Business	15.1	12.5	12.3
Fishery Resource Landing	3.2	4.0	3.7
Salmon Enhancement	3.6	3.5	3.5
Salmon and Seafood Marketing Receipts	5.7	4.6	4.5
Dive Fisheries Management	0.2	0.2	0.2
Other ASMI Receipts	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Subtotal	27.9	24.9	24.3
Total Restricted	62.0	57.6	56.4
Grand Total	246.2	225.9	227.4

Charges for Services

The charges for services reported in Table 25 do not include all charges for state services — it just reflects those that do not fit into other categories in this report. Most of these receipts are restricted revenue because they are returned to the program from which they came.

The only unrestricted revenue listed under charges for services in this report comes from fees and other program charges that do not have program receipt designations, or are not otherwise segregated and appropriated back to the program.

Marine Highway Fund

The revenue from certain transportation enterprises is reported here as a charge for state services. The Alaska Marine Highway Fund is in the General Fund and receives the revenue from operations of the state ferry system. The legislature has discretion over how the revenue is spent but, because it is customarily spent on Alaska Marine Highway operations, it is considered restricted.

Program Receipts

The definition of program receipts under AS 37.05.146 is "fees, charges, income earned on assets and other state money received by a state agency in connection with the performance of its functions." The statute then lists out all programs with program receipt authority. The statutory list includes many programs that are not in Table 25 because they are elsewhere in this forecast — such as federal receipts, trust funds and the Permanent Fund — or not state money — such as the public employee retirement funds. Table 25 lists some of the larger individual programs and the receipts from those programs. The largest of these is state airport revenue from landing and other fees, rents and the sale of aviation fuel. This is deposited in the International Airport Fund, which is an enterprise fund that the legislature traditionally appropriates only for air transportation purposes. Those not listed separately, or not described elsewhere in this forecast, are included in the catchall "other."

Table 25. Charges for Services
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary Actual <u>FY 2001</u>	(1) <u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
General Government	19.4	16.0	16.0
Natural Resources	6.5	5.2	5.2
Other	<u>1.0</u>	<u>0.8</u>	<u>0.8</u>
Total Unrestricted	26.9	22.0	22.0
<u>Restricted</u>			
Marine Highway Receipts	37.6	38.6	40.6
Program Receipts			
Airport Receipts	73.8	69.0	73.4
Statutorily Designated	51.8	72.5	72.5
Pioneer Home Receipts	12.4	12.5	12.5
Banking and Securities	11.2	11.0	11.0
Regulatory Commission of Alaska Receipts	4.9	4.9	4.9
Commercial Fisheries Entry Commission Receipts	4.1	4.1	4.1
Oil and Gas Conservation	2.5	3.4	4.0
Test Fisheries Receipts	2.1	2.3	2.3
Other	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>
Subtotal	172.8	189.7	194.7
Total Restricted	210.4	228.3	235.3
Grand Total	237.3	250.3	257.3

(1) The FY 2002 forecast is the amount authorized in the operating and capital budget (OMB).

Fines and Forfeitures

This category includes civil and criminal fines and forfeitures, and money received by the state from the settlement of various civil lawsuits. The majority of the receipts under this category are from tobacco litigation and other settlements.

Tobacco Settlement

The tobacco settlement was signed by 46 states (including Alaska) in November 1998. The first payment from the settlement was made in FY 2000. In 2000 and 2001, the legislature authorized the sale of 80% of the future revenue stream from the tobacco settlement to a new public corporation, the Northern Tobacco Securitization Corporation, a subsidiary of the Alaska Housing Finance Corporation. The new corporation, in turn, sold bonds based on this revenue stream, and paid to the state the money raised by the bond sale, which the legislature appropriated for schools, the university and harbor projects. Starting in FY 2002, the remaining 20% of the settlement revenue will be deposited into the new Tobacco Use Education and Cessation Fund.

Table 26. Fines and Forfeitures
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary Actual FY 2001	FY 2002	FY 2003
<u>Unrestricted</u>			
Tobacco Settlement	21.4	0.0	0.0
Other Settlements	5.7	6.0	6.0
Fines and Forfeitures	<u>6.5</u>	<u>6.0</u>	<u>6.0</u>
Total Unrestricted	33.6	12.0	12.0
<u>Restricted</u>			
Tobacco Settlement (Northern Tobacco Securitization Corp.)	0.0	20.6	21.0
Tobacco Settlement (Tobacco Use Education & Cessation Fund)	<u>0.0</u>	<u>5.2</u>	<u>5.3</u>
Total Restricted	0.0	25.8	26.3
Grand Total	33.6	37.8	38.3

Licenses and Permits

Licenses and permits represent another source of government revenue derived from charges for allowing people to participate in activities regulated by the state. The majority of the receipts under this category are from motor vehicle registration and fishing and hunting license fees.

Fishing and Hunting Licenses Fees

The majority of these fees are appropriated to a special revenue fund called the Fish and Game Fund. Money in the fund may only be spent for fish and game management purposes.

Motor Vehicle Registration Fees

Motor vehicle registration fees are unrestricted license and permit revenue.

Business Fees

This category includes program receipts that are actually license or permit fees. This includes insurance licensing fees and permits and all the various license fees for occupations that require licenses, such as doctors, nurses and guides.

Table 27. Licenses and Permits
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary Actual <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Motor Vehicle	34.1	33.3	33.8
Other Fees	<u>3.2</u>	<u>3.2</u>	<u>3.2</u>
Total Unrestricted	37.3	36.5	37.0
<u>Restricted</u>			
Fishing and Hunting			
Hunting and Fishing Fees (Fish and Game Fund)	23.8	24.1	24.4
Sanctuary Fees (Fish and Game Fund)	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Subtotal	23.9	24.2	24.5
Insurance & Occupational			
Insurance Licensing Fees and Permits	7.9	8.0	8.0
Occupational Licensing Receipts	<u>7.2</u>	<u>6.5</u>	<u>6.5</u>
Subtotal	15.1	14.5	14.5
Other Fees (Clean Air Protection Fund)	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>
Total Restricted	41.0	40.7	41.0
Grand Total	78.3	77.2	78.0

Rents and Royalties

The majority of the unrestricted receipts under this category are from leasing, rental and sale of state land. Although certain restricted receipts go to the Permanent Fund, Mental Health Trust Fund and Public School Trust Fund, these are not included here.

Table 28. Rents and Royalties
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	<u>Actual</u> <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Land Leasing, Rental and Sale	9.2	8.3	8.3
Coal Royalties	1.1	1.1	1.1
Timber Sales	0.4	0.4	0.4
Cabin Rentals	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Total Unrestricted	10.9	10.0	10.0
Grand Total	10.9	10.0	10.0

Other

This category includes unrestricted contributions, unclaimed property and miscellaneous other receipts.

Public Corporation Dividends

The public corporations of the state listed in this section have been capitalized with state money, which the corporations use for purposes — usually loans — related to their mission. The dividend listed on Table 29 on Page 86 is treated as restricted revenue.

Unclaimed Property

Under the unclaimed property statutes, a person holding abandoned property belonging to someone else must turn the property over to the state, which holds the property in trust until claimed by its rightful owner. Most unclaimed property is in the form of cash (checking and savings accounts), stocks and bonds (including dividends) and safe-deposit box contents. Other property includes utility deposits, traveler checks and wages. Because not all unclaimed property owners are located, amounts received from holders exceed the refunds to owners. The Tax Division maintains a minimum balance in the trust account and periodically transfers excess funds to the General Fund. Unclaimed property receipts for FY 2002 are far greater than in any other year because of a very large settlement of an unclaimed property dispute with Bank of America.

Table 29. Other Non-Oil Revenue
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
Miscellaneous	35.0	35.0	35.0
Unclaimed Property	<u>0.0</u>	<u>17.0</u>	<u>3.0</u>
Total Unrestricted	35.0	52.0	38.0
<u>Restricted</u>			
Dividends from Public Corporations			
Alaska Housing Finance	103.0	103.0	103.0
Alaska Industrial Development & Export Authority	18.5	17.5	19.0
Alaska Student Loan Corporation	2.2	4.0	4.0
Alaska Municipal Bond Bank	<u>0.7</u>	<u>0.6</u>	<u>0.6</u>
Subtotal	124.4	125.1	126.6
Total Restricted	124.4	125.1	126.6
Grand Total	159.4	177.1	164.6

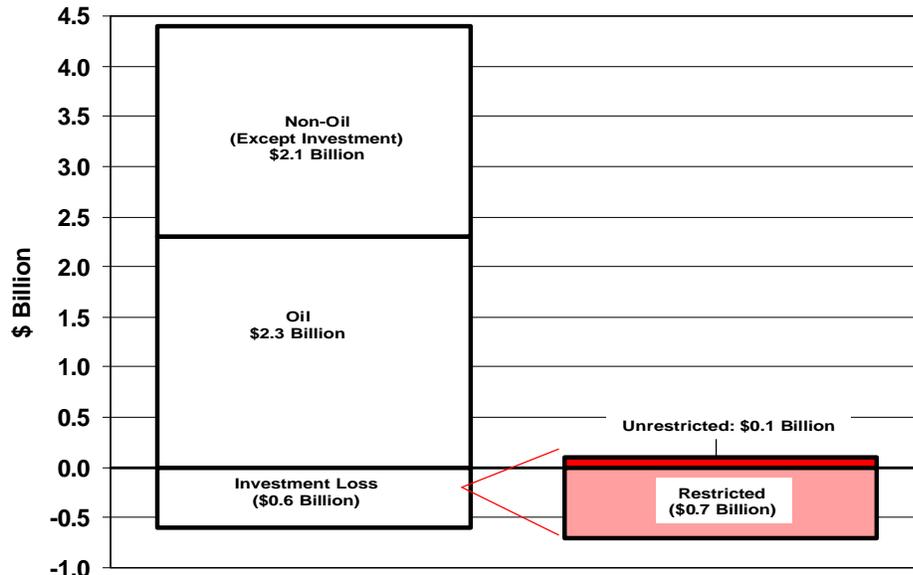
VII. INVESTMENT REVENUE

Table 30. Total Investment Revenue
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary		
	Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Unrestricted</u>			
GeFONSI Pool Investments	61.7	40.9	22.0
Investment Loss Trust Fund	0.4	0.2	0.2
Interest Paid by Others	<u>16.7</u>	<u>10.0</u>	<u>10.0</u>
Subtotal	78.8	51.1	32.2
<u>Restricted</u>			
GeFONSI Pool Investments	21.8	12.1	7.8
Constitutional Budget Reserve Fund	202.9	168.0	82.8
Other Treasury Managed Funds	16.5	25.2	43.7
Alaska Permanent Fund (GASB) ⁽¹⁾	<u>(924.0)</u>	<u>169.0</u>	<u>1,947.1</u>
Subtotal	(682.8)	374.3	2,081.4
Total	(604.0)	425.4	2,113.6

(1) Governmental Accounting Standards Board (GASB) principles recognize changes in the value of investments as income or losses at the end of each trading day, whether or not the investment is actually sold.

Figure 23. FY 2001 Investment Revenue
 (\$0.6 Billion)



Overview - Investment of State's Financial Assets

Revenue earned from investing the state's financial assets has become a major part of Alaska's revenue picture, exceeding all other state General Fund tax and royalty revenue in four of the five past years. The state's money is held in funds that fall into three categories: (1) revolving funds, (2) single-project funds, and (3) endowment funds.

(1) Revolving funds are funds that are continually expended and replenished. Examples of the state's many revolving funds include the General Fund and the International Airport Revenue Fund.

(2) Single-project funds are non-replenishing funds established with specific sums for specific projects or programs. Examples of this type of fund include the International Airport Construction Fund, as well as funds for capital grants to municipal governments, school districts, unincorporated communities and several funds for energy-related projects.

(3) The state's endowment funds are funds for which a principal balance is invested and the earnings go to support a public purpose. The state's endowment funds include the Alaska Permanent Fund, Mental Health Trust Fund, Alaska Science and Technology Fund, International Trade and Business Development Fund, Public School Trust, Alaska Children's Trust and Power Cost Equalization Endowment Fund.

Two different organizations manage the investment of most of the state's financial assets — the Treasury Division of the Alaska Department of Revenue and the Alaska Permanent Fund Corporation. The Treasury Division manages the many funds involved in the day-to-day operation of state government and also serves as the staff for the Alaska State Pension Investment Board in managing the several public employee retirement funds for which the state is responsible. In addition, it invests a portion of the University of Alaska Endowment and Exxon Valdez Oil Spill Trust Endowment. Finally, it manages state endowment funds not managed by the Permanent Fund, a portion of the Alaska Student Loan Fund and various state health and long-term care insurance funds.

The Alaska Permanent Fund Corporation has investment responsibility for the Alaska Permanent Fund, Mental Health Trust Fund, Alaska Science and Technology Endowment Fund and International Trade and Business Development Fund.

While we have included information about the Mental Health Trust Fund, Alaska Science and Technology Fund and International Trade and Business Endowment in this section of our forecast, we have not included projected investment revenue from these funds in our investment revenue totals. For financial reporting purposes, these entities are classified as component units of state government whose activities are accounted for separately from the activities of state government. ⁽¹⁾

The University of Alaska is the overall manager of its own endowment funds, and each of the state's independent public corporations except the Alaska Science and Technology Foundation manages its own cash assets.

The Treasury Division and the Alaska Permanent Fund employ similar processes when investing state assets. This involves selecting an asset allocation appropriate for the return objectives, risk tolerance, liquidity requirements and legal requirements for each individual fund. For example, where the state needs to spend the assets of a fund relatively soon — in other words, where the fund has a short-term investment horizon — the fund should be invested in assets such as short-term government securities whose value is unlikely to decline substantially in the near term. If the fund has a relatively long-term investment horizon, it is appropriate to invest a portion of the fund in riskier assets — such as stocks. Riskier assets are more likely to decline substantially in value in the near term but are also more likely to earn higher returns over the longer term.

The Treasury Division has established an array of investment pools with varying investment horizons and risk profiles. The funds are invested in these pools unless required by statute or bond indenture to be held separately. The investment pools maximize earning potential, provide economies-of-scale savings of time and dollars, and allow smaller funds to participate in investment opportunities that would otherwise be unavailable to them.

For a detailed discussion of the Treasury Division's investment process, together with the detailed investment policies of each of the funds managed by the Treasury Division, see the Division's Investment Policies and Procedures Manual at <http://www.revenue.state.ak.us/Treasury/policies/Manual.htm>.

For information on the investments managed by the Alaska Permanent Fund Corporation, see <http://www.apfc.org>.

(1) Component units are legally separate entities for which state government is financially accountable. The Mental Health Trust, Alaska Science and Technology Foundation and International Trade and Business Endowment are separately presented in the state's Comprehensive Annual Financial Report to emphasize they are legally separate from the state. The Alaska Permanent Fund Corporation is also classified as a component unit, but the report of its financial activity is blended into the primary state government report because its activities are, in substance, part of primary state government's operations.

Investment Forecast

To forecast investment revenue for the current fiscal year — FY 2002 — we would normally combine each fund's actual performance through October 31 with a projection for the rest of the year. This projection would be based on cash flow forecasts and estimated capital market median returns supplied each January by the state's investment consultant, Callan Associates Inc. (<http://www.callan.com>). These estimates are annual averages for a five-year time period. The forecast for FY 2003 would also normally be based on these capital market return estimates. Although we have deviated from our normal Callan-based forecast procedure for funds invested in short and intermediate-term fixed income securities, we used our standard procedures for forecasting income from longer-term investments.

Table 31. Callan Associates Inc. 2001 Five-Year Capital Market Estimated Returns

<u>Asset Class</u>	<u>Benchmark for Asset Class</u>	<u>%/Year Median Expected Return</u>	<u>%/Year Expected Risk</u>
Equities			
U.S. Broad	Callan Associates Inc. (CAI) Broad Market	9.2	16.2
U.S. Large Cap	Standard and Poors (S&P) 500	8.9	15.0
U.S. Small Cap	CAI Small	10.4	25.0
International	Morgan Stanley Capital International EAFE	9.8	21.5
Fixed Income			
Domestic Broad Market	Lehman Brothers Aggregate	6.6	6.0
Domestic Short Term (cash equivalent)	Three-Month U.S. Treasury Bill	5.0	0.7
Domestic Intermediate Term	Merrill Lynch 1- to 5-Year Government	5.6	4.1
International	Salomon Brothers Non-U.S. Government	6.5	10.0
Other			
Real Estate		8.3	16.5
Economic Variables			
Inflation		3.25	1.8

Because of the extraordinary performance over the past year in the fixed-income market, Treasury has modified its general forecast procedure for funds with significant holdings of shorter maturity fixed-income investments. For the balance of FY 2002 and FY 2003, we are using the current market levels of interest.

Table 32 Treasury’s Short-Term Fixed-Income and Intermediate-Term Fixed-Income Return for Balance of FY 2002 and Projected FY 2003

<u>Asset Class</u>	<u>Benchmark for Asset Class</u>	<u>%/Year Median Expected Return</u>
Domestic Short Term (cash equivalent)	Three-Month U.S. Treasury Bill	3.0
Domestic Intermediate Term	Merrill Lynch 1- to 5-Year Government Index	3.5

The recent volatility in the world's financial markets makes focus on the expected risk columns in Table 31 particularly appropriate. The numbers in this column represent a statistical measure called standard deviation, which is the most commonly used measure of risk in the investment world. The standard deviation allows you to estimate a range in which you would expect results to fall two-thirds of the time. For example, Callan estimates an average annual return for the domestic broad market fixed-income asset class of 6.6% and an expected risk for that asset class of 6%. That means Callan is forecasting that two-thirds of the time the annual return for the domestic broad fixed-income asset class will fall between 0.6% (the median expected average annual return of 6.6% *minus* the expected risk of 6%) and 12.6% (the median expected return *plus* the expected risk).

The probability that a particular asset class or portfolio will have a negative return over a given period of time is another way to reflect the riskiness of that asset class or portfolio. The investment income summary tables in this section of the revenue forecast include an estimate of the probability of negative returns for each fund over a one-year period.

Unrestricted Investment Revenue

Table 33. Unrestricted Investment Revenue
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

<u>Unrestricted</u>	Preliminary Actual	<u>FY 2002</u>	<u>FY 2003</u>
	<u>FY 2001</u>		
GeFONSI Pool Investments	61.7	40.9	22.0
Investment Loss Trust Fund	0.4	0.2	0.2
Interest Paid by Others	<u>16.7</u>	<u>10.0</u>	<u>10.0</u>
Total	78.8	51.1	32.2

Unrestricted Investment Revenue from the GeFONSI Pool

A majority of the state's funds, including the General Fund, participate in an investment pool established by the Treasury Division called the General Fund and Other Nonsegregated Investments (GeFONSI) pool. Investment objectives for this pool are: (1) limited exposure to principal loss, (2) general income without taking substantial risk, (3) minimal inflation protection, and (4) high liquidity. To achieve these objectives this pool is, in turn, invested in two fixed-income pools established and managed by Treasury — Treasury's short-term, fixed-income pool and Treasury's intermediate-term, fixed-income pool. The GeFONSI pool has maintained an average balance of \$1 billion for the past eight years. The General Fund itself, with an average balance of \$300 million, is the largest participant in the GeFONSI pool. The balance of the GeFONSI pool consists of the cash assets of 120 other funds.

Of the funds participating in the GeFONSI pool, 61 are entitled to the actual income earned on their cash assets invested in the pool. The earnings from the cash assets of the other 60 funds are credited to the General Fund.

**Table 35. Investment Loss Trust Fund Investment Revenue Summary
Preliminary Actual FY 2001 and Projected FY 2002-2003**

<u>Asset Allocation</u>		
<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Short-term, Fixed-Income Pool	100%	U.S. Treasury Bill
Investment Loss Trust Fund Balance October 31, 2001		\$ 3.8 Million
Projected Annual Rate of Return		3.0 %
Probability of Negative Return Over 1 Year		approximately 0 %

	Total Return (\$ Million)		
	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Investment Loss Trust Fund	0.4	0.2	0.2

Restricted Investment Revenue

**Table 36. Restricted Investment Revenue
Preliminary Actual FY 2001 and Projected FY 2002-2003
\$ Million**

<u>Restricted</u>	Preliminary Actual <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
GeFONSI Pool Investments	21.8	12.1	7.8
Constitutional Budget Reserve Fund	202.9	168.0	82.8
Other Treasury Managed Funds	16.5	25.2	43.7
Alaska Permanent Fund (GASB) ⁽¹⁾	<u>(924.0)</u>	<u>169.0</u>	<u>1,947.1</u>
Total	<u>(682.8)</u>	<u>374.3</u>	<u>2,081.4</u>

(1) Governmental Accounting Standards Board (GASB) principles recognize changes in the value of investments as income or losses at the end of each trading day, whether or not the investment is actually sold.

Restricted Investment Revenue from the GeFONSI Pool

As presented in Table 36, restricted investment revenue from funds whose cash assets are invested in the GeFONSI pool totaled \$21.8 million in FY 2001 and are projected to total \$12.1 in FY 2002 and \$7.8 million in FY 2003.

Constitutional Budget Reserve Fund (Alaska Constitution, Article IX, Section 17)

Voters approved a constitutional amendment in 1990 establishing the Constitutional Budget Reserve Fund (CBRF) and requiring the state to deposit all settlements from oil and gas and mining tax and royalty disputes into that fund. The money in the CBRF is invested by the Department of Revenue, and the CBRF retains its own investment earnings. Although, in theory, the legislature may appropriate money from the CBRF under certain conditions with a simple majority vote, in practice those conditions do not occur and it takes a three-fourths vote of the members of each chamber to appropriate money from the fund.

Since 1991 the legislature has appropriated money from the CBRF to balance the state's budget in every fiscal year except 1997 and 2001, when high oil prices resulted in small budget surpluses. The Alaska Constitution requires the General Fund to repay the money appropriated from the CBRF if the General Fund has a surplus at the end of any fiscal year, but the General Fund does not pay interest on the money it has "borrowed" from the CBRF. As of June 30, 2001, the General Fund had "borrowed" almost \$4 billion from the CBRF.

On June 30, 2001, the CBRF cash balance was \$2.995 billion. The balance was down to \$2.83 billion on November 30, 2001. Based on our oil price and production projections, if the state maintains its budget at the level of Governor Knowles' FY 2003 budget request, but continues to draw on the CBRF to balance the budget, the CBRF will run out of money in September 2004 (see Page 34).

Treasury's investment policies for the CBRF have changed over the years as the balance and the expected uses of the CBRF have changed. Before 1999 a portion of the CBRF was invested with a long-term horizon and some of the fund was invested in U.S. equities. The very low oil prices experienced in 1998 and 1999 led to a significant reduction in the amount in the fund. The reduced size of the fund significantly shortened its investment time horizon, meaning the state could no longer afford the risk of long-term stock investments because the CBRF would likely be drained over the next few years. Therefore, the fund's investments were moved out of equities and concentrated in relatively short-term, fixed-income securities. A significant change occurred again in 2000 when the legislature created a special subaccount in the CBRF in the amount of \$400 million. The legislature instructed the Department of Revenue to invest the \$400 million subaccount with a long-term horizon so that the money would be invested in stocks — not just bonds — in the hope of earning more investment revenue over time.

**Table 37. CBRF Investment Revenue Summary
Preliminary Actual FY 2001 and Projected, FY 2002-2003**

Asset Allocation Regular Account

<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Short-term, Fixed-Income Pool	10%	Three-Month U.S. Treasury Bill
Intermediate-term, Fixed-Income Pool	65%	Merrill Lynch 1- to 5-Year Government Index
Broad Market Fixed-Income Pool	25%	Lehman Brothers Aggregate Bond Index
Regular Account Balance October 31, 2001		\$2,585.0 Million
Projected Annual Rate of Return		4.19 %
Probability of Negative Return Over 1 Year		7.38 %

Asset Allocation Special Subaccount

<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Broad Market Fixed-Income Pool	42%	Lehman Brothers Aggregate Bond Index
Domestic Equity Pool	41%	Russell 3000 Index
International Equity Pool	17%	MSCI EAFE Index
Special Subaccount Balance October 31, 2001		\$ 355.3 Million
Projected Annual Rate of Return		8.25 %
Probability of Negative Return Over 1 Year		21.74 %

	Total Investment Income (\$Million)		
	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Regular Account	226.9	169.4	53.5
Special Subaccount	<u>(24.0)</u>	<u>(0.6)</u>	<u>32.2</u>
Total	202.9	168.8	85.7

Table 38. Constitutional Budget Reserve Fund Cash Flows
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary Actual FY 2001	FY 2002	FY 2003
Beginning Cash Balance CBRF	2,734.2	2,994.8	2,398.9
Beginning Main Account Balance	2,734.2	2,618.8	2,023.5
Transfer to Special Subaccount	(400.0)	0.0	0.0
Earnings on Main Account Balance ⁽¹⁾	226.9	169.4	53.5
Petroleum Tax, Royalty Settlements ⁽²⁾	49.1	100.0	45.0
Loan to GF (prior year)	0.0	0.0	0.0
Loan to GF (current year) ⁽³⁾	<u>8.6</u>	<u>(864.7)</u>	<u>(1,077.9)</u>
Ending Main Account Balance	2,618.8	2,023.5	1,044.1
Beginning Special Subaccount Balance	400.0	376.0	375.4
Earnings on Special Subaccount Balance ⁽¹⁾	(24.0)	(0.6)	32.2
Draw on Special Subaccount	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Ending Special Subaccount Balance	376.0	375.4	407.6
Total CBRF Balance	2,994.8	2,398.9	1,451.7

(1) The projected earnings rate for FY 2002 and 2003 is 4.19% for the undesignated subaccount and 8.25% for the special subaccount. These projections are based on Callan's capital market assumptions and Department of Revenue, Treasury Division's asset allocation.

(2) Settlement estimates are provided by the Department of Revenue and Department of Law.

(3) The FY 2002 and 2003 CBRF draw projections are provided by the Office of Management and Budget (OMB) and do not represent final budget numbers. The estimated future loan figures are slightly different than those found in Table 8. Table 8 was based on flat budget projections while OMB's estimate in this table are based on the assumption that certain portions of the budget will change with population.

International Airport Funds (AS 37.15.410 - .550)

In 1961 the Alaska Legislature established an enterprise fund, the International Airport Revenue Fund, to facilitate issuing revenue bonds for construction at the Anchorage and Fairbanks International Airports. Enterprise funds are self-supporting, revolving funds used to account for business-like state activities. They are financed through user charges and subject to legislative appropriation. Almost all the revenue and expenses of these two international airports flow through this Airport Revenue Fund, including the funding for most repair and maintenance projects. Consequently, the revenue fund is subject to large cash inflows and outflows.

The Airport Revenue Fund has maintained a significant balance (it has averaged \$85 million since 1996), and the investment earnings from the fund are a significant revenue source for the airport system. Most of the revenue to run the airports comes from landing and lease fees paid by the airlines, and the Department of Transportation and Public Facilities takes the fund's projected earnings into account in negotiating fees with airlines. Airport management and airline representatives have tried to keep fees as stable and low as practical. Relatively stable investment earnings assist the airport system and the airlines in meeting that goal.

**Table 39. International Airport Revenue Fund Investment Revenue Summary
Preliminary Actual 2001 and Projected 2002-2003**

<u>Asset Allocation</u>		
<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Short-term, Fixed-Income Pool	15%	Three-Month U.S. Treasury Bill
Intermediate-term, Fixed-Income Pool	85%	Merrill Lynch 1- to 5-Year Government Index
International Airport Revenue Fund Balance October 31, 2001		\$ 107.7 Million
Projected Annual Rate of Return		3.43 %
Probability of Negative Return Over 1 Year		5.68 %

	<u>Total Investment Income (\$ Million)</u>		
	<u>Preliminary Actual</u>	<u>FY 2002</u>	<u>FY 2003</u>
	<u>FY 2001</u>		
International Airport Revenue Fund	8.5	6.4	3.8

Major improvements in the International Airport system have generally been financed with revenue bonds. When issued, the proceeds of these airport revenue bonds are deposited into a separate International Airport Construction Fund. The proceeds of three bond issues to finance major improvements at the Ted Stevens International Airport in Anchorage are currently invested in the Airport Construction Fund. The investment earnings from this fund are available to help pay for the construction project.

**Table 40. International Airport Construction Fund Investment Revenue Summary
Preliminary Actual FY 2001 and Projected FY 2002-2003**

<u>Asset Allocation</u>		
<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Short-term, Fixed-Income Pool	25%	Three-Month U.S. Treasury Bill
Intermediate-term, Fixed-Income Pool	75%	Merrill Lynch 1- to 5-Year Government Index
International Airport Construction Fund Balance October 31, 2001		\$ 139.2 Million
Projected Annual Rate of Return		3.375 %
Probability of Negative Return Over 1 Year		3.9 %

	Total Investment Income (\$ Million)		
	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
International Airport Construction Fund	13.6	7.9	3.3

Public School Trust Fund (AS 37.14.110)

The net income of this Trust Fund may only be appropriated to support the state public school program. This trust fund was created from the Public School Permanent Fund on July 1, 1978, but its history goes back much further. The original source of funding consisted of income from the sale or lease of approximately 100,000 acres of land granted to the Territory of Alaska by an Act of Congress on March 15, 1915. The principal of the fund could not be appropriated by the legislature. The 1978 change abolished the land portion of the trust and, in its place, provided that one-half of 1% of the total receipts derived from the management of state land, including amounts paid to the state as proceeds of the sale or annual rent of surface rights, mineral lease rentals, royalties, royalty sale proceeds and federal mineral revenue-sharing payments or bonuses were to be deposited into the fund.

The money in the Trust Fund is invested and managed by the Department of Revenue, and the Commissioner of Revenue is the treasurer and fiduciary of the fund. The fund is managed to provide increasing net income over the long term for the fund's income beneficiaries. The principal of the fund and all capital gains or losses realized on the investment of the assets of the fund must be retained in the fund.

Currently, the fund each year distributes 4.75% of the last five years' average market value of the fund principal, as long as this amount does not exceed the accumulated interest and dividend income.

For a more detailed comparison of this fund with other state endowment funds, see Section VIII of this forecast.

**Table 41. Public School Trust Investment Revenue Summary
Preliminary Actual FY 2001 and Projected FY 2002-2003**

Asset Allocation

<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Broad Market Fixed-Income Pool	55%	Lehman Brothers Aggregate Index
Domestic Equity Pool	45%	Russell 3000 Index

Public School Trust Fund Balance October 31, 2001	\$ 268.4 Million
Projected Annual Rate of Return	7.69 %
Probability of Negative Return Over 1 Year	18.77 %

	Total Investment Income and Distributable Income (\$ Million)		
	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Public School Trust Total Investment Income	0.4	6.7	21.8
Public School Trust Distributable Income	8.6	12.0	12.6

Alaska Children's Trust (AS 37.14.200)

Income from this endowment is used to provide grants to community-based programs for the prevention of child abuse and neglect. The trust provides individual grants of up to \$50,000 per year, matched by other sources.

The legislature established the trust in 1988. The Commissioner of Revenue is the fiduciary. The first significant funding of the trust occurred in 1996 when the legislature appropriated \$6 million to the trust. Appropriations, gifts, bequests and contributions of cash or other assets provide additional funds in the endowment.

Currently, the fund distributes 4.75% of the last five years' average beginning market value of the principal, as long as this amount does not exceed the accumulated interest and dividend income.

For a more detailed comparison of this fund with other state endowment funds, see Section VIII of this forecast.

**Table 42. Alaska Children's Trust Investment Revenue Summary
Preliminary Actual FY 2001 and Projected FY 2002-2003**

<u>Asset Allocation</u>		
<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Broad Market Fixed-Income Pool	55%	Lehman Brothers Aggregate Index
Domestic Equity Pool	45%	Russell 3000 Index
Alaska Children's Trust Balance October 31, 2001		\$ 9 Million
Projected Annual Rate of Return		7.69 %
Probability of Negative Return Over 1 Year		18.77 %

	Total Investment Income and Distributable Income (\$ Million)		
	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Alaska Children's Trust Total Investment Income	0.0	0.2	0.8
Alaska Children's Trust Distributable Income	0.4	0.4	0.4

Power Cost Equalization Endowment Fund (AS 42.15.070)

Two separate funds are involved in the Power Cost Equalization program: the Power Cost Equalization Endowment Fund, which supplies money to the program; and the Power Cost Equalization and Rural Electric Capitalization Fund, which distributes money for the Power Cost Equalization program.

The legislature in May 2000 established the Endowment Fund as a separate fund of the Alaska Energy Authority (AEA). The AEA is a public corporation of the Department of Community and Economic Development directed by the officers of the Alaska Industrial Development and Export Authority. The endowment consists of the following sources of revenue:

1. Legislative appropriations.
2. Accumulated earnings.
3. Gifts and bequests.
4. Federal money.
5. Payments received after June 30, 2001 from the sale of the state-owned Four-Dam Pool hydroelectric projects in Kodiak, Valdez, Ketchikan and Wrangell-Petersburg.

The Commissioner of Revenue is the fiduciary of the endowment. The Department of Revenue is to manage the endowment in a manner likely to achieve at least a 7% nominal return over time.

For the initial transition years (2002 through the first year after closing of the Four-Dam Pool sale), 7% of the market value on February 1 each year is designated to pay for the Power Cost Equalization program for the next fiscal year. After the transition years, on July 1 of each year, the commissioner must determine the monthly average market value of the endowment for the previous three fiscal years, excluding the transition years. Seven percent of this amount may be appropriated for the following fiscal year for three purposes:

1. Funding the Power Cost Equalization and Rural Electric Capitalization Fund (AS 42.45.100).
2. Reimbursement to the Department of Revenue for the costs of establishing and managing the endowment.
3. Reimbursement of other costs of administration of the endowment.

The Power Cost Equalization and Rural Electric Capitalization Fund is used to equalize power costs per kilowatt-hour statewide at a cost close to or equal to the average cost per kilowatt-hour in Anchorage, Fairbanks and Juneau by paying money to eligible electric utilities in the state.

The program fund has received direct legislative appropriations, appropriations from the Power Cost Endowment Fund, and money appropriated from the National Petroleum Reserve Alaska Special Revenue Fund. The program fund is managed by the Alaska Energy Authority.

For a more detailed comparison of this fund with other state endowment funds, see Section VIII of this forecast.

**Table 43. Power Cost Equalization Endowment Investment Revenue Summary
Preliminary Actual FY 2001 and Projected FY 2002-2003**

<u>Asset Allocation</u>		
<u>Treasury Pool</u>	<u>Percent Allocation</u>	<u>Performance Benchmark</u>
Broad Market Fixed-Income Pool	42%	Lehman Brothers Aggregate Index
Domestic Equity Pool	41%	Russell 3000 Index
International Equity Pool	17%	MSCI EAFE Index
Power Cost Equalization Endowment Balance October 31, 2001		\$ 100.5 Million
Projected Annual Rate of Return		8.25 %
Probability of Negative Return Over 1 Year		21.74 %

	Total Return and Distributable Funds (\$ Million)		
	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Power Cost Equalization Endowment Total Return	(6.0)	4.0	14.0
Power Cost Equalization Endowment Distributable Funds	na ⁽¹⁾	7.1	12.9

Alaska Permanent Fund Corporation - Four Endowment Funds

The four endowment funds managed by the Alaska Permanent Fund Corporation (APFC) — the Alaska Permanent Fund itself, Mental Health Trust, Alaska Science and Technology Endowment and International Trade and Business Endowment — share several common attributes. First, all four funds are invested together with a common asset allocation. (See Table 44 below.) Second, all four use an income measure called *statutory net income*. This measure is different from the income measure prescribed by the Governmental Accounting Standards Board (GASB) for public funds. Under GASB standards, public funds normally recognize changes in the value of investments as income, or losses, as they occur at the end of each trading day, regardless of whether the investment is actually sold. By Alaska law, however, to calculate income available for use from these four funds, gains or losses on individual stocks and bonds are not recognized until the stock or bond is sold. The portfolios of these funds usually include significant unrealized gains and/or losses. As those gains or losses are realized over time, they may cause the fund's statutory net income to differ significantly from the net income derived using GASB standards. Of these four endowments, only the revenue earned by the Permanent Fund is included in our summary.

Table 44. Four Endowment Trust Funds Managed by the Permanent Fund Corporation Revenue Summary

<u>Asset Allocation</u>	
<u>Asset Class</u>	<u>Percent Allocation</u>
Domestic Equities	37%
International Equities	16%
Domestic Fixed Income	35%
International Fixed Income	2%
Real Estate	10%
Projected Annual Rate of Return	8.2 %
Probability of Negative Return Over 1 Year	22.0 %

Alaska Permanent Fund.

In 1976, voters established the Alaska Permanent Fund by constitutional amendment. The amendment requires that at least 25% of the state's oil, gas and mining lease bonuses, rentals, royalties and federal mineral revenue-sharing payments be deposited into the fund. The legislature has, as described later, provided for use of some of the fund's income. The fund's principal, however, is protected by the constitution.

The legislature established the Alaska Permanent Fund Corporation (APFC) to manage and invest the fund's assets. The APFC is a public corporation managed by a board of trustees appointed by the governor.

The fund has grown significantly over the years, and as of October 31, 2001, had a market value of \$23.3 billion, of which slightly more than \$21 billion is principal.

As fiduciaries for the fund, the trustees must have an investment objective that addresses the safety of the principal while maximizing total return. The board must also allow for maximum use of disposable income for purposes designated by law. To accomplish this, the board has adopted an investment policy that addresses risk, return, diversification and liquidity. Using this policy, the board adopted a strategic asset allocation by applying the basic process referenced earlier.

The table on the next page reflects the projected balances for the Permanent Fund, and projected income using both the statutory net income and GASB net income measures.

The Alaska Constitution requires the deposit of the income earned by the assets of the Permanent Fund "into the General Fund unless otherwise provided by law." The legislature has, by law, "provided otherwise" and all of the Permanent Fund's income is deposited into the Earnings Reserve Account within the Permanent Fund. This account was established by AS 37.13.145.

In turn, the income accumulated in the Earnings Reserve Account is statutorily applied to the Permanent Fund dividend program (AS 37.13.140 and AS 37.13.145(b)) and to inflation proofing the principal of the Permanent Fund (AS 37.13.145(c)). Realized Permanent Fund income in excess of the amount needed to satisfy the statutory dedication for annual dividends and inflation proofing — while legally available for other uses — has been left in the Permanent Fund Earnings Reserve Account. Because, as a matter of political custom, these excess earnings have been left in the Permanent Fund, this revenue forecast treats them as restricted revenue.

Table 45. Alaska Permanent Fund ⁽¹⁾
Preliminary Actual FY 2001 and Projected FY 2002-2003
\$ Million

	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Principal</u>			
Beginning Balance	20,014.8	21,046.8	21,969.0
Dedicated Petroleum Revenue	339.0	223.0	216.0
Inflation Proofing	686.0	687.4	721.7
Deposits to Principal (Settlement Earnings)	<u>7.0</u>	<u>11.8</u>	<u>21.5</u>
End-of-Year Balance	21,046.8	21,969.0	22,928.2
<u>Earnings and Earnings Reserve Account (Statutory Income) ⁽²⁾</u>			
Earning Reserve Account (ERA) Beginning Balance	2,972.0	2,384.0	1,994.1
Statutory Net Income and Settlement Earnings	1,222.0	1,349.3	1,947.1
Dividend Payout	(1,113.0)	(1,040.0)	(958.0)
Inflation Proofing	(686.0)	(687.1)	(721.7)
Deposits to Principal	(7.0)	(11.8)	(21.5)
Other Appropriations	<u>(4.0)</u>	<u>0.0</u>	<u>0.0</u>
ERA End-of-Year Balance (Statutory)	2,384.0	1,994.1	2,102.0
<u>Earnings and Earnings Reserve Account (GASB Income) ⁽²⁾</u>			
ERA Beginning Balance	6,501.0	3,767.0	2,196.8
GASB Net Income	(924.0)	169.0	1,947.1
Dividend Payout	(1,113.0)	(1,040.0)	(958.0)
Inflation Proofing	(686.0)	(687.4)	(721.7)
Deposits to Principal	(7.0)	(11.8)	(21.5)
Other Appropriations	<u>(4.0)</u>	<u>0.0</u>	<u>0.0</u>
ERA End-of-Year Balance (GASB)	3,767.0	2,196.8	2,442.7
<u>Market Value</u>			
Principal End-of-Year Balance	21,046.8	21,969.0	22,928.2
ERA End-of-Year Balance (Statutory Income)	2,384.0	1,994.1	2,102.0
End-of-Year Unrealized Earnings	<u>1,383.0</u>	<u>202.7</u>	<u>340.7</u>
Subtotal	24,813.8	24,165.8	25,370.9
Dividends Payable and Other Liabilities	<u>1,370.0</u>	<u>1,293.0</u>	<u>1,211.0</u>
End-of-Year Balance (Total Asset Market Value)	26,183.8	25,458.8	26,581.9
<u>Reconciliation</u>			
Dividends Payable and Other Liabilities	<u>(1,370.0)</u>	<u>(1,293.0)</u>	<u>(1,211.0)</u>
End-of-Year Balance (Net Asset Market Value)	24,813.8	24,165.8	25,370.9

(1) Source: Permanent Fund Corporation estimates using October 31, 2001, financial statements. Income projections are based on Callan Associates, Inc. 2001 capital market assumptions: 8.20% total and 7.72% realized return for all years.

(2) Alternative measures of income. Under GASB principles, daily gains or losses in investment value are recognized. Under statutory net income, gains or losses in investment value are not recognized until the investment is sold.

Mental Health Trust Fund (AS 37.14.001).

The Mental Health Trust Fund is administered by the Alaska Mental Health Trust Authority. The trust was created in territorial days when Congress passed the Alaska Mental Health Enabling Act of 1956. To implement the trust, the state selected one million acres of land to provide revenues for the development of a comprehensive mental health program for the state's citizens.

The state eventually merged the Mental Health Trust lands with the state's general grant land and transferred some of these lands to private ownership, prompting litigation that resulted in an Alaska Supreme Court order to reconstitute the trust. In 1994, a final settlement reconstructed the trust with 500,000 acres of the original trust land, 500,000 acres of replacement land, and \$200 million in cash.

The trust's cash assets are held in the Mental Health Trust Fund and those assets are managed by the APFC. Trust lands are managed by the Trust Land Office in the Department of Natural Resources. The cash principal of the Mental Health Trust Fund must be retained in perpetuity in the fund for investment by the APFC and, as a result, may not be spent. The principal of the fund includes (1) the \$200 million referenced above, (2) a portion of the revenue from trust lands, and (3) fund earnings that the Trust Authority has transferred into the principal.

Earnings of the fund accumulate in an earnings account that is managed along with the fund's principal at the APFC. This earnings account, which is equivalent to the Permanent Fund's Earnings Reserve Account, is called the *Principal Reserve Account* by the Mental Health Trust Authority.

The operations of the trust, including management of the trust's lands and the Trust Fund and the trust's grant program, are paid for from yet another account called the *Mental Health Trust Settlement Income Account*. This account is managed by the Treasury Division, and is part of the GeFONSI pool described earlier in this report.

AS 37.14.031(c) requires the APFC to determine the annual net income of the Mental Health Trust Fund in the same manner it determines the annual net income of the Permanent Fund (on the basis of realized as opposed to GASB income). Further, AS 37.14.035(b) directs the APFC, at the end of each fiscal year, to transfer all of the Trust Fund's realized net income to the *Settlement Income Account* managed by the Treasury Division. A different practice has developed, however. The Trust Authority has the discretion under AS 37.14.039(b) to make arrangements to invest any money in the *Settlement Income Account* that exceeds the current and projected cash needs of the trust. The Trust Authority has concluded that these excess funds should be invested by the APFC along with the principal of the trust. Rather than transfer all of the annual earnings from the APFC to the *Settlement Income Account* at Treasury and then request the transfer of the excess amount back to the APFC, the Trust Authority has arranged for the APFC to transfer to the *Settlement Income Account* only the amount needed each year for the trust's operations and grant program.

While the operating budget of the Mental Health Trust is subject to legislative appropriation under the Executive Budget Act, the trust's grant program is not. When the trust awards grants to state agencies, those agencies must, of course, obtain legislative authorization to receive and expend those grants. No legislative approval or appropriation is required for the trust's grants to municipalities and/or nonprofit corporations.

The Mental Health Trust Fund spending policy is to distribute 3.5% of the year-end market value of the Trust Fund. The Mental Health Trust Authority has adopted this conservative distribution policy to build up a sufficient principal reserve and thus ensure the fund will be able to continue to support its program in years of poor returns in the financial markets. If income exceeds the 3.5% distribution, the excess remains with the Principal Reserve Account of the Trust Fund or is moved into the principal of the fund in accordance with the directions and policies adopted by the Trust Authority Board. Currently, the trust tries to maintain a balance in the Principal Reserve Account equal to four times the projected annual distribution. Eventually, the Trust Authority hopes to increase the annual distribution rate to 5% of the year-end market value.

Table 46. Mental Health Trust Fund ⁽¹⁾
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary Actual FY 2001	FY 2002	FY 2003
<u>Principal</u>			
Beginning Balance	259.9	261.9	269.2
Deposits to Principal	<u>2.0</u>	<u>7.2</u>	<u>3.2</u>
End-of-Year Balance	261.9	269.2	272.4
<u>Earnings and Principal Reserve Account (Statutory Income) ⁽²⁾</u>			
Principal Reserve Account (PRA) Beginning Balance	53.0	56.3	58.5
Statutory Net Income	14.9	13.1	23.1
Disributions	<u>(11.5)</u>	<u>(10.9)</u>	<u>(11.2)</u>
PRA End-of-Year Balance (Statutory)	56.3	58.5	70.4
<u>Earnings and Principal Reserve Account (GASB Income) ⁽²⁾</u>			
PRA Beginning Balance	67.4	44.5	36.8
GASB Net Income	(11.4)	3.2	24.6
Disributions	<u>(11.5)</u>	<u>(10.9)</u>	<u>(11.2)</u>
PRA End-of-Year Balance (GASB)	44.5	36.8	50.2
<u>Total Liabilities and Fund Balance</u>			
Principal End-of-Year Balance	261.9	269.2	272.4
PRA End-of-Year Balance (Statutory Income)	56.3	58.5	70.4
End-of-Year Unrealized Earnings	<u>(11.9)</u>	<u>(21.7)</u>	<u>(20.2)</u>
Subtotal	306.4	305.9	322.6
Other Liabilities	<u>3.3</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Total Asset Market Value)	309.7	305.9	322.6
<u>Reconciliation</u>			
Other Liabilities	<u>(3.3)</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Net Asset Market Value)	306.4	305.9	322.6

(1) Source: Alaska Mental Health Trust Fund estimates using October 31, 2001, financial statements. Income projections are based on Callan Associates, Inc. 2001 capital market assumptions: 8.20% total and 7.72% realized return for all years. End-of-year other liabilities balance is projected at zero for current and all future years.

(2) Alternative measures of income. Under GASB principles, daily gains or losses in investment value are recognized. Under statutory net income, gains or losses in investment value are not recognized until the investment is sold.

Alaska Science and Technology Foundation and Endowment (AS 37.17.010).

The Alaska Science and Technology Foundation was established in 1988 as a public corporation in the Department of Community and Economic Development to promote and enhance the development and commercialization of technology in the state.

The Alaska Science and Technology Endowment was established to support the foundation and was capitalized with \$100 million in legislative appropriations to benefit the foundation. The Alaska Permanent Fund Corporation (APFC) manages the endowment's investments.

The distribution of the endowment's income to the foundation is subject to the Executive Budget Act. The board has the discretion to divide the annual realized capital gains between principal and income of the fund. With one exception — totaling \$1.037 million in 1991 — the board has left the realized capital gains in the fund's income account.

Income from the endowment is used to fund grants through a competitive proposal process managed by the foundation's nine-member board of directors. The administrative expenses of the foundation are also paid from income, and the legislature also appropriates income of the endowment to pay for the administrative expenses of the Alaska Aerospace Development Corporation and the University of Alaska agricultural and forestry experiment station research centers.

Table 47. Alaska Science and Technology Endowment ⁽¹⁾
Preliminary Actual FY 2001 and Projected FY 2002-2003
 \$ Million

	Preliminary Actual		
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Principal</u>			
Beginning Balance	101.2	101.2	101.2
Inflation Proofing	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance	101.2	101.2	101.2
<u>Earnings and Earnings Reserve Account (Statutory Income) ⁽²⁾</u>			
Earning Reserve Account (ERA) Beginning Balance	4.3	2.4	0.0
Statutory Net Income	5.2	4.5	7.6
Distributions	<u>(7.1)</u>	<u>(6.9)</u>	<u>(7.6)</u>
ERA End-of-Year Balance (Statutory)	2.4	0.0	0.0
<u>Earnings and Earnings Reserve Account (GASB Income) ⁽²⁾</u>			
ERA Beginning Balance	16.6	5.5	(0.2)
GASB Net Income	(4.0)	1.2	8.1
Distributions	<u>(7.1)</u>	<u>(6.9)</u>	<u>(7.6)</u>
ERA End-of-Year Balance (GASB)	5.5	(0.2)	0.2
<u>Total Liabilities and Fund Balance</u>			
Principal End-of-Year Balance	101.2	101.2	101.2
ERA End-of-Year Balance (Statutory Income)	2.4	0.0	0.0
End-of-Year Unrealized Earnings	<u>3.1</u>	<u>(0.2)</u>	<u>0.2</u>
Subtotal	106.7	101.0	101.4
Other Liabilities	<u>1.6</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Total Asset Market Value)	108.3	101.0	101.4
<u>Reconciliation</u>			
Less: Other Liabilities	<u>(1.6)</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Net Asset Market Value)	106.7	101.0	101.4

(1) Source: Alaska Science and Technology Endowment estimates using October 31, 2001, financial statements. Income projections are based on Callan Associates, Inc. 2001 capital market assumptions: 8.20% total and 7.72% realized return for all years. End-of-year other liabilities balance is projected at zero for current and all future years.

(2) Alternative measures of income. Under GASB principles, daily gains or losses in investment value are recognized. Under statutory net income, gains or losses in investment value are not recognized until the investment is sold.

International Trade and Business Endowment.

In 1997, the legislature established the International Trade and Business Endowment and assigned the administration of the endowment to the Alaska Science and Technology Foundation. The legislature funded this endowment with an appropriation of \$4.95 million in FY 1997 to support programs for the development of international trade and business in the state. The Department of Community and Economic Development administers the programs supported by the income from this endowment.

**Table 48. International Trade and Business Endowment ⁽¹⁾
Preliminary Actual FY 2001 and Projected FY 2002-2003**

\$ Million

	Preliminary Actual <u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<u>Principal</u>			
Beginning Balance	5.0	5.0	5.0
Inflation Proofing	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance	5.0	5.0	5.0
<u>Earnings and Earnings Reserve Account (Statutory Income) ⁽²⁾</u>			
Earning Reserve Account (ERA) Beginning Balance	0.9	1.1	0.9
Statutory Net Income	0.3	0.2	0.4
Distributions	<u>(0.1)</u>	<u>(0.4)</u>	<u>(0.4)</u>
ERA End-of-Year Balance (Statutory)	1.1	0.9	0.9
<u>Earnings and Earnings Reserve Account (GASB Income) ⁽²⁾</u>			
ERA Beginning Balance	1.0	0.7	0.4
GASB Net Income	(0.2)	0.1	0.4
Distributions	<u>(0.1)</u>	<u>(0.4)</u>	<u>(0.4)</u>
ERA End-of-Year Balance (GASB)	0.7	0.4	0.4
<u>Market Value</u>			
Principal End-of-Year Balance	5.0	5.0	5.0
ERA End-of-Year Balance (Statutory Income)	1.1	0.9	0.9
End-of-Year Unrealized Earnings	<u>(0.4)</u>	<u>(0.5)</u>	<u>(0.5)</u>
Subtotal	5.6	5.3	5.3
Other Liabilities	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Total Asset Market Value)	5.7	5.3	5.3
<u>Reconciliation</u>			
Other Liabilities	<u>(0.1)</u>	<u>0.0</u>	<u>0.0</u>
End-of-Year Balance (Net Asset Market Value)	5.6	5.3	5.3

(1) Source: International Trade and Business Endowment estimates using October 31, 2001, financial statements. Income projections are based on Callan Associates, Inc. 2001 capital market assumptions: 8.20% total and 7.72% realized return for all years. End-of-year other liabilities balance is projected at zero for current and all future years.

(2) Alternative measures of income. Under GASB principles, daily gains or losses in investment value are recognized. Under statutory net income, gains or losses in investment value are not recognized until the investment is sold.

VIII. STATE ENDOWMENT FUNDS

The State of Alaska has established several endowment funds to support specific public purposes. Proposals for additional endowment funds also have been introduced during recent legislative sessions. In 2000 the Power Cost Equalization Endowment Fund was established. In 2001 the legislature established an endowment for Alaska's participation in the Arctic Winter Games.

This section of the revenue forecast compares some important attributes of eight existing endowment funds. The University of Alaska endowment is included in this comparison because it is the one Alaska state public endowment fund that employs the annual distribution practices typical of the vast majority of endowments in the United States and Canada.⁽¹⁾

The fiduciary for each of these endowment funds has the responsibility for establishing an asset allocation policy for the fund. Table 49 below compares the asset allocation policies for these endowments.

Today, under the standards adopted by the Governmental Accounting Standards Board (GASB), public funds complying with those standards determine and report their income by recognizing changes in the value of securities as income, or losses, as they occur at the end of each trading day, regardless of whether the securities are actually sold and the income taken, or realized. All eight of these endowments report annual income on this basis. However, as reflected in Table 49, six of them — the four funds administered by the APFC, the Public School Trust and the Alaska Children's Trust — use other measures of annual income for their distributions.

In determining the amount of income available for distribution each year for the four funds managed by the Alaska Permanent Fund Corporation, gains or losses on individual stocks and bonds are not recognized until the stock or bond is sold. For calculating distributable income for the Public School Trust and the Alaska Children's Trust, only interest earned and dividends paid are treated as income. Gains and losses in the value of individual stocks and bonds are never recognized as income. By law, those gains and losses remain with the principal of the fund.

(1) The predominant practice, making annual distributions of 4% to 5% of the market value of the endowment, developed following a 1968 Ford Foundation study. See *The Ford Foundation Managing Educational Endowments* (New York, New York; 1968).

Table 49. Target Asset Allocation - State Endowment Funds
percent

	<u>Cash</u>	<u>U.S. Bonds</u>	<u>Foreign Bonds</u>	<u>U.S. Equities</u>	<u>Int'l Equities</u>	<u>Real Estate</u>	<u>Alternative Investments</u>	<u>Total</u>
Alaska Permanent Fund	0	35	2	37	16	10	0	100
Mental Health Trust	0	35	2	37	16	10	0	100
Science & Technology Foundation	0	35	2	37	16	10	0	100
International Trade & Business Fund	0	35	2	37	16	10	0	100
Public School Trust	0	55	0	45	0	0	0	100
Alaska Children's Trust	0	55	0	45	0	0	0	100
Power Cost Equalization	0	42	0	41	17	0	0	100
University of Alaska Endowment	1	28	0	36	12	5	18	100

Table 50. Calculation of Annual Income - State Endowment Funds

	<u>Financial Reporting of Income</u>	<u>Distributable Income</u>
Alaska Permanent Fund	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on securities actually sold
Mental Health Trust	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on securities actually sold
Science & Technology Foundation	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on securities actually sold
Int'l Trade & Business Endowment	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid + gains and losses on securities actually sold
Public School Trust	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid; gains and losses on value of securities are never income, they become part of principal
Alaska Children's Trust	GASB (recognize gains and losses based on change in market value)	Interest earnings + dividends paid; gains and losses on value of securities are never income, they become part of principal
Power Cost Equalization Endowment	GASB (recognize gains and losses based on change in market value)	GASB (recognize gains and losses based on change in market value)
University of Alaska Endowment	GASB (recognize gains and losses based on change in market value)	GASB (recognize gains and losses based on change in market value)

Several important considerations bear on the distribution policy established for an endowment fund.

[What kind of distribution policy will minimize year-to-year volatility in distributions?](#) Distributions based on the average of several years of fund earnings or several years of fund market value will be less volatile than distributions based on one year's earnings or one year's market value. Because the proportional variability in total market value from year-to-year will be smaller than the proportional variability in fund earnings, distributions based on fund market value will be less volatile than distributions based on fund earnings.

[Where there is a prohibition on distributing fund principal, how can a fund best be managed to make it possible to continue distributions in a several-year bear market?](#) To reduce the possibility of no distribution, a policy of retaining a large cushion in an earnings reserve account is essential. If all the fund's accumulated earnings are either distributed or moved to the fund principal when times are good, the fund may well be precluded from making distributions when times are bad. This is certainly the situation faced by the Science and Technology Endowment in the autumn of 2001. As a consequence of the way the state budgeting process works, substantially all of the very high income the endowment earned from the bull market of the past decade was appropriated and spent. When the market declined in late 2000 and 2001, there was not an accumulated cushion in the earnings account to pay for the continuation of all the programs dependent upon the endowment's earnings.

[What kind of distribution policy will provide maximum current distributions, yet protect the purchasing power of the fund and the fund distributions against inflation?](#) The answer is: a policy that leads to the distribution, on average, of the long-run real return of the fund — that is the nominal average return of the fund minus the average inflation rate. If the long-run nominal return of the fund is 8.25% and the long-run inflation rate is 3.25%, then the fund can distribute 5% (8.25% *minus* 3.25%) of its value each year and still protect its purchasing power.

The following tables show how the legislature and the fund managers have addressed these questions.

Table 51. Distributable Income Determination - State Endowment Funds

Alaska Permanent Fund	The only regular distribution is for the annual Permanent Fund Dividend (PFD). That distribution, following the formula in AS 37.13.140-.150, equals 10.5% of the past five years' total realized income but not to exceed 50% of the balance in the Fund's Earning Reserve Account (ERA). The 50% limitation has never been triggered. Because the fund principal does not change with changes in investment market values, the market value volatility for the entire fund is absorbed by the ERA. Consequently, a large balance is needed in the ERA to ensure there are enough funds for the full annual dividend distribution according to the statutory formula. The annual PFD dividend distribution has been equal to about 4% of the market value of the fund.
Mental Health Trust	The Mental Health Trust Board adopted a policy to annually distribute 3.5% of the market value of the fund's total assets beginning in FY 2001. For FY 1996-1998 it was 3%; for FY 1999-2000 it was 3.25%. Because of recent declines in market value, the Trust Board is exploring a redefinition of "principal" so that losses in market value would be proportionally allocated to the principal account and the income account.
Science & Technology Foundation	Withdrawals of income have been <u>ad hoc</u> and have almost equalled the total realized earnings of the fund over its 13-year existence. (Total realized earnings are \$118 million; total withdrawals for expenditures are \$114.8 million.) The fund has no earnings cushion to absorb a significant market value decline.
International Trade & Business Endowment	Like the practices with the Alaska Science and Technology Endowment, withdrawals of income have been <u>ad hoc</u> . Unlike the Science and Technology Endowment, a large enough balance has been preserved in the Earnings Reserve Account so the fund is better able to retain its ability to distribute monies in a sustained bear market.
Public School Trust	The annual distribution is 4.75% of a five-year moving average of the fund principal's market value so long as that amount does not exceed the interest and dividend earnings available in the earnings account. The trust has accumulated a sizable income account balance so the fund is better able to retain its ability to distribute in a sustained bear market.
Alaska Children's Trust	The annual distribution is 4.75% of a five-year moving average of the fund principal's market value so long as that amount does not exceed the interest and dividend earnings available in the earnings account. The trust has accumulated a sizable income account balance so the fund is better able to retain its ability to distribute in a sustained bear market.
Power Cost Equalization Endowment	The annual distribution is 7% of the fund's market value. For the initial transition years, use the market value on February 1 for the subsequent fiscal year. Thereafter, use 7% of the monthly average value for a specified 36-month period.
University of Alaska	The annual distribution is 5% of a five-year moving average of the market value of the fund.

Table 52. Inflation-Proofing Procedures — State Endowment Funds

Alaska Permanent Fund	The legislature annually inflation proofs the principal of the Permanent Fund (but not the accumulated balance in the Earnings Reserve Account (ERA)) pursuant to AS 37.13.145. The legislature each year transfers from the ERA to the fund's principal an amount equal to the U.S. Consumer Price Index's effect on the value of the principal. The Alaska Permanent Fund Corporation's Trustees have proposed a constitutional amendment that would inflation proof the entire fund by limiting the annual distribution of earnings to 5% of the market value of the fund.
Mental Health Trust	The Mental Health Trust Authority has adopted two policies to inflation proof the fund. It limits distributions to 3.5% of the fund's market value. (The authority's ultimate distribution rate goal of 5% should still inflation proof the fund.) The authority also has adopted a policy transferring money from the reserve account to the principal whenever the reserve exceeds four times the annual income distribution.
Science & Technology Foundation	Under AS 37.17.030, the foundation's board of directors could add one half of the annual realized capital gains of the endowment to the endowment's principal. They have done so only once (in October 1991). Since then the capital gains have been appropriated and spent, and there has been no inflation proofing.
International Trade & Business Endowment	There is no provision for inflation proofing.
Public School Trust	The asset allocation policy is such that, in combination with the requirement that the fund's capital gains and losses remain part of the principal of the fund, the retained capital gains are adequate to inflation proof the fund.
Alaska Children's Trust	The asset allocation policy is such that, in combination with the requirement that the fund's capital gains and losses remain part of the principal of the fund, the retained capital gains are adequate to inflation proof the fund.
Power Cost Equalization Endowment	The legislature, in selecting a 7% distribution policy, expressly elected not to inflation proof this fund, but rather to distribute all, or almost all, of its anticipated annual earnings.
University of Alaska Endowment	The university's distribution policy of 5% of the moving five-year average of the fund's market value should inflation proof the fund.

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IX. PUBLIC CORPORATIONS AND THE UNIVERSITY OF ALASKA

Public Corporations

The state has established the following public corporations to carry out certain public policies:

- Alaska Housing Finance Corporation (AHFC)
- Alaska Industrial Development and Export Authority (AIDEA)
- Alaska Energy Authority (AEA)
- Alaska Student Loan Corporation (ASLC)
- Alaska Municipal Bond Bank Authority (AMBBA)
- Alaska Aerospace Development Corporation
- Alaska Railroad Corporation
- Alaska Science and Technology Foundation (ASTF)

These eight corporations, together with the Mental Health Trust and Alaska Science and Technology Foundation (described in Section VII) and University of Alaska, are component units of state government whose activities are accounted for in the State's Comprehensive Annual Financial Report separately from the activities of primary state government.

Four of these corporations — the Alaska Housing Finance Corporation, Alaska Industrial Development Authority, Alaska Student Loan Corporation and Alaska Municipal Bond Bank Authority — pay some portion of their income as a “dividend” to the state. These “dividends” have been included as income in Section VI — Non-Oil Revenue (Except Investments) — of this forecast.

Two of these corporations — AIDEA and AEA — share a common staff and board of directors. The other corporations each have their own staffs and boards. While neither the sale of bonds nor the expenditure of bond proceeds by these corporations are subject to the Executive Budget Act, expenditures for the day-to-day administration of all of these corporations except the Alaska Railroad are.

The following six tables summarize the activities of these eight corporations.

Table 53. Public Corporations - Missions

What does the corporation do and how does it do it?

Alaska Housing Finance Corporation	Using proceeds from the sale of bonds backed by its corporate assets, AHFC purchases home mortgages from Alaska banks. Income from payments on these mortgages repays bond holders and adds to the corporation's income, thereby enabling the corporation, since FY1991, to pay an annual dividend and/or return on capital to the state. In addition to ensuring that Alaskans, especially Alaskans of low and moderate income, and those in remote and underdeveloped areas of the state, have adequate housing at reasonable cost, the corporation administers federally and state funded multi-residential, senior and low-income housing, residential energy and home weatherization programs. In recent years, the legislature also has authorized AHFC to finance the construction of schools, University of Alaska housing and other capital projects identified by the legislature.
Alaska Industrial Development and Export Authority	By lending money, guaranteeing loans or becoming an owner, AIDEA makes financing available for industrial, export and other business enterprises in Alaska. The corporation earns money from interest on its loans and from leases and operations of its properties. The corporation has paid an annual dividend to the state since FY1997.
Alaska Energy Authority	A separate entity within AIDEA, AEA provides loans to rural utilities, communities and individuals to pay for the purchase or upgrade of equipment and for bulk fuel purchases. Additionally, the agency administers the Power Cost Equalization program, subsidizing rural electric costs with the earnings of the Power Cost Equalization Endowment. AEA also receives federal and state money to provide technical advice and assistance in energy planning, management and conservation in rural Alaska.
Alaska Student Loan Corporation	The Alaska Student Loan Corporation uses proceeds from bond sales to finance student loans made by the Alaska Commission on Postsecondary Education. Loan repayments satisfy bond obligations and enhance the corporation's capital asset base. Alaska statutes authorize the board of directors to annually declare a return to the state of a portion of its contributed capital. The board has declared a return on capital for FY 2001 and FY 2002.
Alaska Municipal Bond Bank Authority	The Bond Bank loans money to Alaska municipalities for capital improvement projects. The bank's larger capital base, its reserve funds and its credit rating enable it to sell bonds at lower interest rates than the municipalities could obtain on their own. The Bond Bank earns interest on the money it holds in reserve and has returned a dividend to the state every year since 1977.
Alaska Aerospace Development Corporation	The corporation finances aerospace-related ventures in Alaska, including the establishment and operation of a commercial space vehicle launch facility in Kodiak, space science and engineering research and promoting tourism at the Poker Flat rocket range and other facilities. Eventually, income from investments and operations will be returned to a revolving fund used to make more loans and acquire properties.
Alaska Railroad Corporation	The corporation operates freight and passenger rail services between Seward and Fairbanks, including a spur line to Whittier. In addition, the corporation generates revenues from real estate it owns.
Alaska Science and Technology Foundation	The Foundation was initially incorporated to promote science and engineering research and development in Alaska by awarding grants and by serving as an adviser to and facilitator among various government agencies and industry. The Foundation's mission was later expanded to include administering the International Trade and Business Endowment. However, in practice, the State Division of International Trade and Market Development administers the endowment.

Table 54. Public Corporations - State Capitalization**How did the state capitalize the corporation?**

Alaska Housing Finance Corporation	The legislature appropriated \$739.9 million in cash and \$292.5 million in mortgages held by the General Fund to the corporation between 1976 and 1984. The payments on those mortgages, and mortgages purchased with the cash, have helped build the corporation's asset base and allow it to return some capital to the state each year. In 1993, AHFC received an additional \$27.7 million in cash and \$9.3 million in equity when the legislature merged the Alaska State Housing Authority with the corporation.
Alaska Industrial Development and Export Authority	Between 1981 and 1991, the State of Alaska transferred various loan portfolios worth \$366.1 million and \$69 million in cash to the corporation. In 1998, the state transferred ownership of the Ketchikan Shipyard, valued at \$13.3 million. The corporation has since written down some assets and returned \$60 million in cash to the state. The state's contributed capital as of June 30, 2001 totaled \$293.8 million.
Alaska Energy Authority	The legislature established the AEA in 1976 to finance and operate power projects. The corporation has also administered rural energy programs at various times, including the present. As a result of legislatively mandated reorganizations, capital has moved into and out of the corporation. At the end of FY 2001, the corporation reported contributed capital of \$963.6 million. Some of that is from the federal government; the corporation does not report what portion.
Alaska Student Loan Corporation	In FY 1988, the state transferred \$260 million of existing student loans to the corporation. Additional appropriations of cash between FY 1988 and FY 1992 totaled \$46.7 million.
Alaska Municipal Bond Bank Authority	Between 1976 and 1986, the legislature appropriated \$18.6 million to the Bond Bank to be use for backing bond issues. In addition, the legislature gave the Bond Bank \$2.5 million in 1981 to cover an anticipated default by a municipality. The municipality did not default, and the Bond Bank retained the appropriation.
Alaska Aerospace Development Corporation	Since 1993, the state has contributed \$10.9 million from the Science and Technology Endowment.
Alaska Railroad Corporation	The state bought the railroad from the federal government in 1985. The purchase price of \$22.7 million was recorded as the state's capitalization.
Alaska Science and Technology Foundation	The corporation is funded from the earnings of the Alaska Science and Technology Endowment. The endowment was capitalized with \$100 million from the General Fund that was paid to the endowment over several years in the late 1980s.

Table 55. Public Corporations - Financial Facts, FY 2001

	(\$ Million) <u>Total Assets</u>	(\$ Million) <u>Assets Less Liabilities Book Value</u>	(\$ Million) <u>FY 2002 Operating Budget</u>	(1) <u>Total Positions</u>
Alaska Housing Finance Corporation	\$5,000	\$1,800	\$39.5	351
Alaska Industrial Development and Export Authority	\$1,300	\$856	\$6.1	62
Alaska Energy Authority	\$800	\$637	\$1.1	See AIDEA (2)
Alaska Student Loan Corporation	\$750	\$292	\$9.7	100
Alaska Municipal (3) Bond Bank Authority	\$244	\$37	\$0.5	1
Alaska Aerospace Development Corporation	\$67	\$39	\$13.6	14
Alaska Railroad (4) Corporation	\$251	\$107	\$87.5	670
Alaska Science and Technology Foundation	\$108	\$107	\$10.5	7

(1) Permanent Full Time (PFT), Permanent Part Time (PPT) and Temporary (TMP) are included in total positions.

(2) The Alaska Industrial and Development and Export Authority (AIDEA) provides staff for the activities of the Alaska Energy Authority (AEA). A significant portion of AIDEA's 62 member staff are engaged in AEA programs.

(3) The Bond Bank financial statement reports funds individually and does not contain a combining balance sheet. The amounts shown here are estimates, not audited numbers.

(4) The Alaska Railroad reports financial data on a calendar year. Assets and book value shown here are for 2000.

Table 56. Public Corporations - Revenue and Net Income
\$ Million

	<u>FY 2001 Revenue</u>	<u>FY 2001 Net Income</u>
Alaska Housing Finance Corporation	\$376.2	\$96.4
Alaska Industrial Development and Export Authority	\$83.6	\$40.3
Alaska Energy Authority	\$56.2	(\$9.5)
Alaska Student Loan Corporation	\$40.6	\$21.0
Alaska Municipal Bond Bank Authority	\$13.0	\$0.7
Alaska Aerospace Development	\$4.3	\$1.8
Alaska Railroad Corporation	\$98.4 ⁽¹⁾	\$16.7
Alaska Science and Technology Foundation	(\$4.0)	\$5.2

(1) The Alaska Railroad reports financial data by calendar year. CY 2000 covers the second half of FY 2000 and the first half of FY 2001.

Table 57. Public Corporations - Dividends to the State

How, if at all, does the corporation pay dividends to the state?

**Alaska Housing
Finance Corporation**

By agreement with the legislature, the corporation is to annually transfer an amount no greater than its net income for the preceding year to the state. As established in statute, that amount has been \$103 million (Chapter 130, SLA 2000). The final payment will be in FY 2008. The corporation has customarily regarded \$53 million of the dividend as available for AHFC capital projects, while the remaining \$50 million is a cash transfer for the legislature to spend as it sees fit. In practice, the legislature has in recent years used some of the \$53 million for non-AHFC projects.

**Alaska Industrial
Development and
Export Authority**

By statute, AIDEA must make available to the state not less than 25% and not more than 50% of its total net income for a base year, defined as the year two years prior to the dividend year. The dividend is further limited to no more than the total amount of its *unrestricted* net income in the base year (AS 44.88.088). An unintended consequence of this policy is that the corporation could be reluctant to book losses in its project investments. Booked losses would reduce net earnings and, consequently, could reduce the dividend to the state.

**Alaska Energy
Authority**

AEA does not pay a dividend or return capital to the state on a regular basis. However, in FY 2000 the corporation returned \$55.6 million of contributed capital to the Railbelt Energy Fund and the General Fund

**Alaska Student
Loan Corporation**

The corporation, at the discretion of its board of directors, may make available to the state a return of contributed capital for any base year in which the net income of the corporation is \$2 million or more. A base year is defined as the year two years before the payment year. If the board authorizes a payment, the returned capital must be between 10% and 35% of net income for the base year (AS 14.42.295).

**Alaska Municipal
Bond Bank Authority**

By statute, the Bond Bank annually returns earnings or income of its reserve fund in excess of expenses to the state.

**Alaska Aerospace
Development
Corporation**

AADC does not pay a dividend or return capital to the state.

**Alaska Railroad
Corporation**

ARRC does not pay a dividend or return capital to the state.

**Alaska Science and
Technology Foundation**

The foundation itself does not pay a dividend or return capital to the state, however, the legislature regularly appropriates money from the earnings of the Science and Technology Endowment and the International Trade and Business Endowment.

Table 58. Public Corporations - Operating Expenses and Dividends
 \$ Million

	Operating Expenses Subject to the Executive Budget Act		Dividends and/or Return of Capital	
	<u>Actual FY 2001</u>	<u>Budget FY 2002</u>	<u>Actual FY 2001</u>	<u>FY 2002</u>
Alaska Housing Finance Corporation	\$36.0	\$39.5	\$103.0	\$103.0
Alaska Industrial Development and Export Authority	\$5.1	\$6.1	\$18.5	\$17.5
Alaska Energy Authority	\$7.9	\$1.1	na	na
Alaska Student Loan Corporation	\$9.3	\$9.7	\$2.2	\$4.0
Alaska Municipal Bond Bank Authority	\$0.5	\$0.5	\$0.7	\$0.6
Alaska Aerospace Development	\$4.7	\$13.6	na	na
Alaska Railroad Corporation	na	na	na	na
Alaska Science and Technology Foundation	\$5.4	\$10.5	na	na

University of Alaska

Established in territorial days, the University of Alaska is organized into four branches: statewide administration and three main campuses in Fairbanks, Anchorage and Juneau. Each main campus administers satellite campuses in rural areas.

The University of Alaska is overseen by a Board of Regents appointed by the governor and subject to confirmation by the legislature. While other semi-autonomous state agencies are created in statute, the university and its board are uniquely embodied in the Alaska constitution.

Accounting standards for state universities and colleges differ from those of public corporations. For instance, they do not record contributed capital or depreciation. The figures presented here, therefore, cannot be compared directly with those of other state agencies or corporations. Rather, they are intended only to give the reader an idea of the university's size and scope.

Table 59. University of Alaska
\$ Million

<u>Lands and Facilities</u> <u>June 30, 2001</u>	<u>Total Assets</u> <u>June 30, 2001</u>	<u>FY 2002</u> <u>Operating Budget</u>	<u>FY 2002</u> <u>Total Positions</u>
\$1,006.6 ⁽¹⁾	\$1,500.5	\$472.1	3,621

(1) This amount does not include depreciation. The university estimates accumulated depreciation, on a straight-line basis, is approximately \$322.7 million at June 30, 2001.

X. APPENDICES

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A. General Fund Unrestricted Revenue Sensitivity Matrices

\$ Million

		Million barrels/day	
	0.90	1.00	1.10
15.00	1,120	1,150	1,190
16.00	1,170	1,210	1,260
17.00	1,220	1,270	1,330
18.00	1,270	1,330	1,400
19.00	1,330	1,400	1,460
20.00	1,380	1,460	1,530
21.00	1,430	1,520	1,600
22.00	1,480	1,580	1,670
23.00	1,530	1,640	1,740
24.00	1,590	1,700	1,810
25.00	1,640	1,760	1,870
26.00	1,690	1,820	1,940

		Million barrels/day	
	0.90	1.00	1.10
15.00	1,070	1,120	1,180
16.00	1,120	1,180	1,240
17.00	1,170	1,240	1,300
18.00	1,220	1,290	1,370
19.00	1,270	1,350	1,430
20.00	1,320	1,410	1,490
21.00	1,380	1,460	1,550
22.00	1,430	1,520	1,610
23.00	1,480	1,580	1,680
24.00	1,530	1,630	1,740
25.00	1,580	1,690	1,800
26.00	1,630	1,750	1,860

		Million barrels/day	
	0.90	1.00	1.10
15.00	1,020	1,070	1,120
16.00	1,070	1,130	1,190
17.00	1,120	1,180	1,250
18.00	1,170	1,240	1,310
19.00	1,220	1,290	1,370
20.00	1,270	1,350	1,430
21.00	1,320	1,410	1,490
22.00	1,370	1,460	1,550
23.00	1,420	1,520	1,620
24.00	1,470	1,570	1,680
25.00	1,520	1,630	1,740
26.00	1,570	1,680	1,800

B. Unrestricted Petroleum Production Tax and Royalty Revenue Forecast

\$ Million

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Alaska North Slope									
Oil Royalty ⁽¹⁾	494.6	455.3	507.2	454.7	409.0	390.9	375.3	359.6	337.8
Oil Severance Tax	423.8	351.6	381.9	319.5	272.4	238.8	207.5	182.9	162.1
Conservation Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	9.3	9.8	10.3	10.4	10.4	10.3	10.4	10.2	9.8
Gas Royalty	0.5	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Gas Severance Tax	1.1	1.4	1.5	1.3	1.2	1.1	1.1	1.1	1.1
Subtotal	929.2	818.7	901.6	786.7	693.7	641.9	594.9	554.5	511.4
Cook Inlet									
Oil Royalty ⁽¹⁾	21.4	20.3	29.8	27.0	24.5	23.9	23.3	22.8	22.3
Oil Severance Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Conservation Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hazardous Release Fund	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Gas Royalty	21.6	19.8	20.4	21.1	21.7	22.4	23.2	23.9	24.7
Gas Severance Tax	15.7	14.8	15.3	15.7	16.2	16.7	17.3	17.8	18.3
Subtotal	59.0	55.2	66.0	64.3	62.9	63.5	64.2	65.0	65.8
TOTAL PRODUCTION TAX and ROYALTY REVENUE	988.2	873.9	967.6	851.0	756.6	705.4	659.1	619.5	577.2
Bonuses	9.5	6.6	6.0						
TOTAL PRODUCTION TAX + ROYALTIES + BONUSES	997.5	880.5	973.6	857.0	762.6	711.4	665.1	325.5	583.2

(1) Unrestricted oil royalty revenue is net of Permanent Fund and Public School Fund contributions.

C. Alternative Oil Price Scenarios
\$ Million

FY	Reference Case		\$10 per Barrel Unrestricted Revenue	\$30 per Barrel Unrestricted Revenue
	\$/barrel	Unrestricted Revenue		
2003	19.72	1,455.1	823.8	1,985.4
2004	18.61	1,518.5	815.0	2,015.4
2005	17.50	1,396.3	797.8	1,937.0
2006	17.50	1,296.4	778.1	1,884.3
2007	17.50	1,234.5	748.0	1,787.4
2008	17.50	1,175.1	714.9	1,694.5
2009	17.50	1,122.8	685.5	1,614.9
2010	17.50	1,070.1	659.4	1,531.7

D. Historical and Projected Crude Oil Prices
\$/ barrel

FY	WTI		ANS Wellhead		ANS West Coast	
	nominal	real2001	nominal	real2001	nominal	real2001
1982	32.98	62.76	21.12	40.20	.	0.00
1983	35.52	63.13	18.96	33.70	.	0.00
1984	30.59	53.00	17.54	30.38	.	0.00
1985	28.15	46.80	17.37	28.87	.	0.00
1986	23.11	37.03	13.36	21.40	.	0.00
1987	16.14	25.41	6.92	10.90	.	0.00
1988	18.53	28.12	10.53	15.98	16.12	24.46
1989	16.93	24.74	9.36	13.67	14.61	21.35
1990	20.06	27.87	11.90	16.53	17.22	23.92
1991	24.95	33.12	15.38	20.41	21.57	28.63
1992	20.69	26.23	11.21	0.00	16.64	21.09
1993	20.69	25.44	12.81	15.75	17.83	21.93
1994	16.69	19.93	9.57	11.43	14.05	16.77
1995	18.54	21.60	11.51	13.41	16.77	19.53
1996	19.20	21.71	12.60	14.24	17.74	20.05
1997	22.54	24.80	16.40	18.04	20.90	22.99
1998	18.03	19.40	11.91	12.81	15.86	17.06
1999	14.09	14.90	8.47	8.96	12.73	13.46
2000	24.82	25.75	18.82	19.52	23.27	24.14
2001	30.41	30.41	20.06	20.06	27.85	27.85
2002	23.06	22.33	15.27	14.79	20.55	19.91
2003	21.25	19.93	13.54	12.70	18.81	17.65
2004	22.18	20.15	14.55	13.22	19.72	17.92
2005	21.06	18.53	13.36	11.75	18.61	16.38
2006	20.00	17.04	12.16	10.37	17.50	14.91
2007	20.00	16.51	12.07	9.96	17.50	14.44
2008	20.00	15.99	11.87	9.49	17.50	13.99
2009	20.00	15.48	11.70	9.06	17.50	13.55
2010	20.00	15.00	11.55	8.66	17.50	13.12

E. Historical and Projected ANS Production

Million barrels/ day

FY	Prudhoe Bay		PBU-Satellite		Kuparuk		Kup Satellite		Milne Point		Libburne		McIntyre		Niakuk		West Beach		Alpine		Nanuk		Northstar		Liberty		Known Onshore		Known Offshore		Flord		NPRA		Total ANS	
	Bay	Satellite	Kuparuk	Satellite	Point	Endicott	Lisburne	McIntyre	Niakuk	Beach	Alpine	Nanuk	Northstar	Liberty	Onshore	Offshore	Flord	NPRA	Total																	
1978	0.702	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.702		
1979	1.197	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.197		
1980	1.422	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.422		
1981	1.511	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.511		
1982	1.531	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.570		
1983	1.532	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.627		
1984	1.539	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.657		
1985	1.534	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.694		
1986	1.555	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.802		
1987	1.564	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.859		
1988	1.605	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	2.006		
1989	1.524	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.962		
1990	1.396	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.846		
1991	1.330	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.794		
1992	1.300	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.783		
1993	1.193	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.679		
1994	1.082	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.593		
1995	0.991	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.572		
1996	0.891	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.474		
1997	0.809	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.404		
1998	0.713	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.275		
1999	0.636	0.003	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.164		
2000	0.570	0.004	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.035		
2001	0.540	0.007	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.991		
2002	0.494	0.019	0.175	0.036	0.056	0.033	0.010	0.046	0.021	0.000	0.095	0.000	0.028	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.012		
2003	0.461	0.050	0.170	0.059	0.065	0.032	0.010	0.042	0.019	0.001	0.095	0.000	0.064	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.069		
2004	0.446	0.068	0.165	0.068	0.077	0.031	0.010	0.036	0.016	0.001	0.130	0.000	0.064	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.111		
2005	0.418	0.071	0.152	0.082	0.090	0.029	0.009	0.032	0.014	0.001	0.123	0.000	0.064	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.119		
2006	0.398	0.072	0.140	0.090	0.101	0.026	0.008	0.029	0.012	0.001	0.107	0.011	0.054	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.119		
2007	0.381	0.074	0.130	0.092	0.104	0.024	0.007	0.026	0.010	0.001	0.094	0.016	0.044	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.106		
2008	0.358	0.072	0.120	0.091	0.105	0.023	0.006	0.023	0.009	0.001	0.082	0.015	0.035	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.100		
2009	0.342	0.067	0.114	0.091	0.101	0.021	0.005	0.021	0.008	0.001	0.073	0.014	0.028	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.083		
2010	0.327	0.063	0.108	0.094	0.097	0.020	0.005	0.020	0.007	0.001	0.065	0.012	0.022	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.036		

(1) Includes NGLs from Central Gas Facility shipped to TAPS

(2) Midnight Sun, Polaris, Aurora and PBU- Schrader

(3) West Sak, Tobasco, Tam and Meltwater

F. Historical Petroleum Revenue
\$ Million

FY	Corporate Petroleum		Production		Property		Reserve Tax	(1) (2) Royalties & Bonuses & Rents		(3) (4) Petroleum Special Settlements		Total Petroleum Revenue	Cumulative Total Petroleum Revenue	Total General Fund Unrestricted Revenue	% of Total General Fund Unrestricted Revenue
	Tax	Tax	Tax	Tax	Tax	Tax		(1) (2) Royalties	(1) (2) Bonuses & Rents	Petroleum Special Settlements	Total Petroleum Revenue				
1975	2.5	26.6	6.6	.	49.8	4.9	.	90.4	1,487.2	333.4	27%				
1976	4.9	28.0	83.4	223.1	48.4	3.7	.	391.5	1,878.7	709.8	55%				
1977	5.0	23.8	139.1	270.6	36.3	2.8	.	477.6	2,356.3	874.3	55%				
1978	8.4	107.7	173.0	.	150.6	1.8	.	441.5	2,797.8	764.9	58%				
1979	232.6	173.8	163.4	.	250.2	1.6	.	821.6	3,619.4	1,133.0	73%				
1980	547.5	506.5	168.9	.	689.4	344.2	.	2,256.5	5,875.9	2,501.2	90%				
1981	860.1	1,170.2	143.0	.	1119.7	11.3	.	3,304.3	9,180.2	3,718.0	89%				
1982	668.9	1,581.7	142.7	.	1174.4	7.1	.	3,574.8	12,755.0	4,108.4	87%				
1983	236.0	1,493.7	152.6	.	1105.6	38.7	.	3,026.6	15,781.6	3,631.0	83%				
1984	265.1	1,393.1	131.0	.	1058.5	13.9	.	2,861.6	18,643.2	3,390.1	84%				
1985	168.6	1,389.4	128.4	.	1042.2	14.9	.	2,743.5	21,386.7	3,260.0	84%				
1986	133.9	1,107.9	113.5	.	845.0	38.9	418.2	2,657.4	24,044.1	3,075.5	86%				
1987	120.4	648.5	102.5	.	448.3	4.3	70.5	1,394.5	25,438.6	1,799.4	77%				
1988	158.0	818.7	96.2	.	701.5	11.3	163.9	1,949.6	27,388.2	2,305.8	85%				
1989	166.0	698.8	89.7	.	611.5	16.7	257.7	1,840.4	29,228.6	2,186.2	84%				
1990	117.2	1,001.6	89.8	0.0	753.7	4.2	154.8	2,121.3	31,349.9	2,507.2	85%				
1991	185.1	1,284.8	85.0	0.0	958.7	24.7	33.5	2,571.8	33,921.7	2,986.6	86%				
1992	165.5	1,053.2	69.0	0.0	708.2	6.8	4.7	2,007.4	35,929.1	2,462.6	82%				
1993	117.6	1,017.6	66.9	0.0	716.7	44.3	4.7	1,967.8	37,896.9	2,352.0	84%				
1994	17.8	692.1	61.5	0.0	516.1	5.1	0.1	1,292.7	39,189.6	1,652.5	78%				
1995	128.5	793.9	57.3	0.0	631.8	5.0	0.7	1,617.2	40,806.8	2,082.9	78%				
1996	173.7	787.2	56.0	0.0	642.2	5.7	0.0	1,664.8	42,471.6	2,133.3	78%				
1997	269.4	921.6	53.6	0.0	759.2	6.4	0.0	2,010.2	44,481.8	2,494.9	81%				
1998	200.1	577.8	51.3	0.0	480.4	23.0	0.0	1,332.7	45,814.5	1,825.5	73%				
1999	145.1	371.1	48.8	0.0	322.6	25.6	0.0	913.2	46,727.7	1,352.1	68%				
2000	162.7	702.7	45.0	0.0	727.9	4.0	0.0	1,642.3	48,370.0	2,147.6	76%				
2001	338.1	703.1	45.1	0.0	781.0	7.1	0.0	1,874.4	50,244.4	2,344.5	80%				

(1) These categories are primarily composed of petroleum revenue, however, they include some additional revenue from other minerals (mostly coal).
(2) Royalties and bonuses and rents are net of Permanent Fund contribution and Constitutional Budget Reserve Fund (CBRF) deposits.
(3) Not subject of CBRF deposits
(4) Tax settlements are in the CBRF.
(5) This table shows historical petroleum revenue for FY 1975-2001. The cumulative petroleum revenue total is based on revenue beginning in FY 1959.

G. Historical General Fund Unrestricted Revenue

\$ Million

FY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
TAXES							(1)	(1)	(1)	(1)	(1)	(1)
<u>Property Tax</u>	89.8	85.0	69.0	66.9	61.5	57.3	56.0	53.6	51.3	48.8	45.0	45.1
<u>Sales/Use</u>												
Alcoholic Beverages	12.0	12.2	12.0	11.9	12.0	12.0	12.0	11.6	11.8	12.2	12.7	12.0
Tobacco Products	11.0	14.0	14.3	14.0	14.1	14.4	14.2	13.7	15.4	15.2	16.3	16.3
Insurance Premium	22.7	24.4	25.5	26.3	26.1	27.9	28.2	28.4	33.7	28.4	28.7	32.2
Motor Fuel Tax-Aviation	9.4	10.7	10.7	6.4	6.9	8.0	8.2	8.1	5.3	5.6	10.6	5.8
Motor Fuel Tax-Highway	22.9	19.1	23.2	25.6	25.5	24.0	21.0	19.9	24.0	25.5	25.4	25.8
Motor Fuel Tax-Marine	9.2	10.0	9.4	8.8	8.1	7.6	8.5	7.3	6.3	6.7	6.1	6.1
Total	87.2	90.4	95.1	93.0	92.7	93.9	92.1	89.0	96.5	93.6	99.8	98.2
<u>Income Tax</u>												
Corporation General	45.3	37.9	33.7	25.1	44.3	67.0	53.3	48.4	53.4	53.8	56.3	59.5
Corporation Petroleum	117.2	185.1	165.5	117.6	17.8	128.5	173.7	269.4	200.1	145.1	162.7	338.1
Total	162.5	223.0	199.2	142.7	62.1	195.5	227.0	317.8	253.5	198.9	219.0	397.6
<u>Severance Tax</u>												
Oil and Gas Production	972.3	1,253.8	1,022.2	989.4	662.8	769.8	771.7	907.0	564.4	358.6	693.2	694.4
Oil and Gas Conservation	2.4	2.3	2.3	2.1	2.3	2.0	1.8	1.7	1.6	1.4	0.0	0.0
Oil and Gas Hazardous Release	26.9	28.0	28.7	26.1	27.0	22.1	13.7	12.9	11.8	11.1	9.5	8.7
Total	1,001.6	1,284.1	1,053.2	1,017.6	692.1	793.9	787.2	921.6	577.8	371.1	702.7	703.1
<u>Other Natural Resource Tax</u>												
Salmon and Seafood Marketing	3.3	3.3	2.8	3.6	5.8	7.9	8.6	7.6	5.6	5.3	7.2	5.8
Salmon Enhancement	6.5	6.2	4.2	6.8	5.0	5.7	5.2	4.2	4.2	3.9	5.1	3.6
Dive Fishery Management	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Fisheries Business	25.1	31.1	30.1	42.2	33.9	39.0	38.2	31.0	28.5	25.9	36.7	23.0 (2)
Fish Landing	0.0	0.0	0.0	0.0	0.1	7.3	7.1	7.3	3.8	5.9	5.3	7.3
Total	34.9	40.6	37.1	52.6	44.8	59.9	59.1	50.1	42.1	41.0	54.5	39.9
<u>Other Tax</u>												
Estate	1.1	3.3	1.0	0.9	1.6	1.2	1.7	1.7	5.5	1.7	2.5	2.7
Other	4.7	4.1	4.1	4.1	4.7	4.8	4.9	5.0	6.1	6.5	8.9	7.4
Total	5.8	7.4	5.1	5.0	6.3	6.0	6.6	6.7	11.6	8.2	11.4	10.1
TOTAL TAXES	1,381.8	1,730.5	1,458.7	1,377.8	959.5	1,206.5	1,228.0	1,438.8	1,032.7	761.6	1,132.4	1,294.0

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
FY							(1)	(1)	(1)	(1)	(1)	(1)
NON TAXES												
<u>Licenses and Permits</u>	27.8	29.1	32.4	32.7	35.7	34.7	60.9	69.0	74.6	63.7	69.2	37.3
<u>Intergovernmental Receipts</u>												
Federal Shared Revenues	10.0	14.8	11.4	10.3	4.3	4.2	1.0	2.0	2.2	0.8	1.0	0.3
<u>Charges for Services</u>												
Marine Highways	34.0	40.7	42.3	40.8	40.4	41.5	38.5	38.6	37.1	38.8	38.3	37.6
Other	<u>12.2</u>	<u>16.5</u>	<u>44.1</u>	<u>14.3</u>	<u>18.0</u>	<u>18.1</u>	<u>36.9</u>	<u>39.5</u>	<u>34.9</u>	<u>31.8</u>	<u>43.7</u>	<u>26.9</u>
Total	46.2	57.2	86.4	55.1	58.4	59.6	75.4	78.1	72.0	70.6	82.0	64.5
<u>Fines and Forfeitures</u>	0.0	0.0	0.0	0.0	0.0	0.0	9.4	8.2	37.7	12.5	46.2	33.6
<u>Rents and Royalties</u>												
Mineral Bonuses, Rents, Royalties	5.3	24.8	6.5	44.3	5.2	5.6	6.9	7.4	23.0	25.6	4.0	7.1
Oil and Gas Royalties	747.4	951.6	702.4	711.3	512.1	628.3	642.2	759.2	480.4	322.6	727.9	781.0
Timber Sales	0.8	0.4	0.6	0.6	0.4	0.6	1.5	1.9	0.8	0.3	0.3	0.4
Sale of State Property	<u>4.3</u>	<u>4.7</u>	<u>1.0</u>	<u>4.0</u>	<u>9.0</u>	<u>21.8</u>	<u>8.1</u>	<u>8.6</u>	<u>8.1</u>	<u>10.6</u>	<u>9.4</u>	<u>10.5</u>
Total	757.8	981.5	710.5	760.2	526.7	656.3	658.7	777.1	512.3	359.1	741.6	799.0
<u>Investment Earnings</u>	117.9	125.0	101.8	70.9	31.7	72.4	64.1	77.1	60.6	46.5	48.1	78.4
<u>Miscellaneous Revenue</u>	10.9	14.9	61.4	45.0	36.2	49.2	35.8	44.6	33.5	37.3	27.1	37.4
Sub-Total NON-TAX REVENUE	970.6	1,222.5	1,003.9	974.2	693.0	876.4	905.3	1,056.1	792.8	590.5	1,015.2	1,050.5
Plus: Income from prior years	154.8	33.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL NON-TAX REVENUE	1,125.4	1,256.1	1,003.9	974.2	693.0	876.4	905.3	1,056.1	792.8	590.5	1,015.2	1,050.5
TOTAL TAX REVENUE	1,381.8	1,730.5	1,458.7	1,377.8	959.5	1,206.5	1,228.0	1,438.8	1,032.7	761.6	1,132.4	1,294.0
TOTAL GENERAL FUND												
UNRESTRICTED REVENUE	2,507.2	2,986.6	2,462.6	2,352.0	1,652.5	2,082.9	2,133.3	2,494.9	1,825.5	1,352.1	2,147.6	2,344.5

(1) Starting in FY 1996, all General Fund program receipts are included under Unrestricted Revenue. FY 1996 also includes additional royalties due to payment from the TAPS Liability Fund. Also, statutorily designated program receipts and receipt-supported services were moved to the restricted category in FY 1998 and FY 2001, respectively.

(2) We have subtracted a \$7.5 million AKSAS reclassification of ASMI and Dive Fishery Receipts to arrive at this number.

H. FY 2001 General Fund Unrestricted Revenue and Unrestricted Revenue Reconciliation
\$ Million

	AKSAS General Fund	(See Table 21, Page 69)
	Unrestricted Revenue	Revenue
	Preliminary	Sources Book
	<u>Actuals</u>	<u>Reclass</u>
		<u>Prelim. Actuals</u>
Unrestricted Non-Oil (Except Investments)	0.3	0.0
Federal Receipts		0.3
Taxes ⁽¹⁾	207.7	184.2
Charges for Services ⁽²⁾	64.5	26.9
Fines and Forfeitures	33.6	33.6
Licenses and Permits	37.3	37.3
Rents and Royalties	10.9	10.9
Other ⁽³⁾	<u>37.4</u>	<u>35.0</u>
Subtotal	391.4	327.9
Total Unrestricted Non-Oil (Except Investments)	391.7	328.2
Unrestricted Interest and Investment Income ⁽⁴⁾	78.4	0.4
Unrestricted Oil	<u>1,874.4</u>	<u>na</u>
Total Appendix G		
General Fund Unrestricted Revenue	2,344.5	na

(1) AKSAS General Fund Unrestricted Revenue taxes include shared tax revenue of \$21.7 million and salmon enhancement tax revenue of \$3.6 million and excludes reclassification of \$1.6 million of ASMI and dive fishery receipts.

(2) AKSAS General Fund Unrestricted Revenue "Charges for Services" includes marine highway receipts of \$37.6 million.

(3) AKSAS General Fund Unrestricted Revenue includes \$4.2 million in CAFR reclassifications and excludes \$0.2 million in excess loan funds.

(4) AKSAS General Fund Unrestricted Revenue excludes Investment Loss Trust Fund revenue of \$0.4 million.

In accordance with AS 37.07.060 (b)(4), the Revenue Sources book is compiled biannually by the Department of Revenue to assist the governor in formulating a proposed comprehensive financial plan for presentation to the Alaska State Legislature. Within the publication are shown prior year actuals, revised current year estimates and future year projections.

Anticipated state income is projected through the use of a number of data sources: (1) econometric models developed by the Department of Revenue to forecast unrestricted non-petroleum revenues; (2) a petroleum revenue model created by the department's Tax Division; and (3) estimates from individual state agencies.

We thank the various state agencies for their cooperation in computing anticipated revenues for publication in this document.

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